

Air Berlin Plc
Annual Report for the year ended 31 December 2006
Registered number 05643814

WEDNESDAY



AFBFPQRL

A45

27/06/2007

433

COMPANIES HOUSE



1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9
10	10
11	11
12	12
13	13
14	14
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23
24	24
25	25
26	26
27	27
28	28
29	29
30	30
31	31
32	32
33	33
34	34
35	35
36	36
37	37
38	38
39	39
40	40
41	41
42	42
43	43
44	44
45	45
46	46
47	47
48	48
49	49
50	50
51	51
52	52
53	53
54	54
55	55
56	56
57	57
58	58
59	59
60	60
61	61
62	62
63	63
64	64
65	65
66	66
67	67
68	68
69	69
70	70
71	71
72	72
73	73
74	74
75	75
76	76
77	77
78	78
79	79
80	80
81	81
82	82
83	83
84	84
85	85
86	86
87	87
88	88
89	89
90	90
91	91
92	92
93	93
94	94
95	95
96	96
97	97
98	98
99	99
100	100

DIRECTORS' REPORT AND BUSINESS REVIEW

A brand with a particular profile Air Berlin defines its position in European aviation with a unique business model offering premium service at favourable prices.

COMPANY PROFILE

Air Berlin with over 4,000 employees, a fleet of 88 aircraft (on 31 December 2006) and almost 20 million passengers, is the SECOND LARGEST GERMAN AIRLINE. Among the LCCs Air Berlin is the market leader in Germany and the third largest in Europe. The airline has positioned itself in this sector as a carrier with a clear brand strategy. Air Berlin sets new standards and offers customers through all available distribution channels a dense route network with access to every leading European city and holiday destination.

Air Berlin serves all significant European holiday destinations and cities

The Company has been a member of the International Air Transport Association (IATA) since 1997 and accordingly is deemed a scheduled carrier. Since then it has been possible to book Air Berlin flights through all standard systems inside and outside Germany. This makes it possible for passengers to transfer to other scheduled carriers within the 'interlining' concept. At the beginning of the 2004 business year Air Berlin acquired a 24 per cent share in NIKI, the airline operated by the Austrian Niki Lauda, three-time winner of the Formula 1 world championship. Air Berlin provides NIKI services in the fields of marketing, sales and logistics. The objective of the first European low-fare alliance is to penetrate the Austrian and eastern European markets.

Prime attention is paid to customer service and comfort. Our own SERVICE CENTER can be reached, around the clock, for 14 cents a minute. Children between their second and twelfth birthdays pay 67 per cent of the adult fare. Offering snacks and beverages free of charge on all flights is part of our service concept.

With the "Fly Euro Shuttle!" slogan Air Berlin emphasises its COMPETENCE AS A EUROPEAN AIRLINE—regardless of whether for holiday shopping or business travel. Beyond the major European holiday destinations, Air Berlin provides access from German airports to numerous European cities directly and not just to the general area. With this positioning as a European airline, inter-city connections outside of Germany are continuously being established. For example, flights are offered from London to Belfast, Glasgow and Manchester and from London and Amsterdam to Mallorca. Within Spain we offer flights from Palma de Mallorca to numerous destinations on the Spanish mainland, the other Balearic Islands and Portugal.

Palma de Mallorca traditionally represents the most important destination in the Air Berlin route network and over the course of the year has systematically been expanded to form one of the Company's important hubs. Passengers can fly to Palma daily, from 17 German airports and three

Several hundred flights originate each week from 17 German airports, destined for Palma de Mallorca

European airports. Moreover, all other significant holiday destinations around the Mediterranean on the Canary Islands in Portugal and in North Africa are also served regularly. In the summer of 2007 with more than 600 FLIGHTS IN TOTAL PER DAY we will operate two and a half times as many flights as in 2001.

The dba acquisition assured growth for Air Berlin at strategically important airports

In August 2006 the funding derived from the successful IPO was used in part to acquire dba. With this acquisition Air Berlin achieved significant strategic goals and opened up SYNERGY POTENTIALS. The dba route network is fully compatible and does not overlap with Air Berlin's. The additional slots at the Munich and Düsseldorf airports, strategically important within Germany, augment the Air Berlin portfolio, as does the dba fleet itself. Moreover, numerous travel contracts have been concluded with companies and corporations and the share of business passengers in overall volume has expanded significantly. Integration of dba into the Air Berlin Group will be completed in 2007 with a uniform market presence.

Increasing corporate value is at the centre of Air Berlin's strategy

CORPORATE STRATEGY AND PERFORMANCE INDICATORS

Air Berlin is targeting SUSTAINABLE AND PROFITABLE GROWTH and a consistent and constant increase in corporate value. To this end, we intend to capitalise on the Company's strengths and to cement its competitive position in the consolidated LCC market in Europe. Air Berlin uses a unique "hybrid" strategy to establish its position in the market. Low prices combined with higher quality both for products AND service.

We want the customer to see Air Berlin as the market's BEST value for money. Thus the Company is consciously and deliberately taking over the niche between the pure low-cost carriers and the traditional airlines.

Air Berlin is offering its customers ADDITIONAL VALUE at competitive fares. Additional value means premium on-board service, a range of additional services associated with flying, an innovative reservations concept and simplified check-in options, including the steadily increasing number of automated check-in points. This is intended to appeal particularly to the business and leisure travellers.

In addition, the continuous development of the service spectrum, with which additional revenue can be generated, emphasis is placed on organic growth by adding new destinations, greater flight frequencies and a permanent optimisation strategy for the route network.



1. Introduction
2. Financial Highlights
3. Key Figures
04) Directors' Report
Business Review
5. Financial Statements
6. Appendix

Air Berlin intends to make an active contribution to shaping the consolidation process in European aviation

Strengthening the Air Berlin share price—by definition, through satisfied shareholders—is part of the value enhancing philosophy

Extensive marketing activities portray the unique Air Berlin business model

In this respect MAINTAINING AND EXPANDING PROFITABILITY is clearly paramount. Stringent profitability criteria are applied when selecting new destinations, which must be compatible with the existing route network, both in regard to their potential use as well as in connection with route coordination. This approach should result in an organic growth which is significantly higher than that of the industry. Indeed, Air Berlin sees itself as a growing company in a growing industry.

In addition, Air Berlin does not lose sight of the potential for growth through acquisitions and intends to play an active part in the current CONSOLIDATION PROCESS in the LCC sector. The most recent example is the successful acquisition of dba. With this acquisition, Air Berlin demonstrated its capability to consistently implement its strategic goals. Moreover, in accordance with the commitments made within the IPO and shareholder interest, the funds derived from the IPO were reinvested quickly and in such a manner so as to increase corporate value.

Ensuring that a growth strategy can be successfully implemented requires a strong share price and, with that, SATISFIED SHAREHOLDERS. The shareholder value concept is one of the essential components of our corporate strategy. The successful Air Berlin business model, its unique competitive positioning and the associated growth potentials form a solid basis for such success.

Marketing and sales

Almost 90 per cent of all those living in Germany recognise the AIR BERLIN BRAND. Through increasing brand recognition and the unique business model, the marketing strategy at Air Berlin concentrates on increasing its customer base.

Additional benefits are available to our customers, deriving from the combination of low prices, premium services and a dense network. In addition to the familiar advertising campaigns in print and electronic media, especially on the Internet, Air Berlin is also an active sports sponsor. Air Berlin supports the FC Schalke 04 team in Gelsenkirchen and the Hertha BSC Berlin team, both of which play in the German national premier football league. Air Berlin has been successful in deriving additional revenues from these marketing activities.

Within the LCC sector, the new business model combining single seat sales and sales to tour operators has been successfully introduced. With the introduction of a programme aimed at business travellers, Air Berlin has successfully branched out into new territory in the LCC sector.

Attractive frequent flyer programme with many additional services

In addition, the Company is one of the few in this sector to offer a FREQUENT FLYER PROGRAMME. Air Berlin's 'Top Bonus' programme offers the opportunity, free of charge, to earn "miles" on flights, by doing business with our many partners which include hotels, car rental agencies, insurance and financial service companies, or by shopping worldwide. By the end of 2006, 510,925 travellers were taking part in the Top Bonus programme, compared with approximately 340,000 in the previous year.

The Company will in the future systematically expand its market share with innovative marketing strategies and a further expansion of its products associated with flying. We will be targeting customers of both the low cost and the traditional flagship carriers.

Cost and efficiency are the driving forces behind our operations but safety is always a paramount priority!

Internal performance measurement

Operationally, Air Berlin observes all relevant security regulations while at the same time maintaining cost and process efficiency. It is for this reason that the organisational structure is flat and transparent. Centralisation is implemented where it makes sense from the standpoint of the Group as a whole. Examples include certain personnel functions, the centrally organised flight operations, in-flight service and flight handling. The cabin and handling functions are brought together in our Group subsidiary, the CHS Cabin und Handling Services GmbH.

Internally, the Group uses EBITDAR (Earnings Before Interest, Tax, Depreciation, Amortisation and Rent, i.e. aircraft leasing expenses) as a reflection of its operating cash flow. EBITDAR is used as an indicator in the air travel industry and also by investors and analysts in general as the measurement that best reflects the industry's performance.

The most important aspect for flight operations, the aircraft, are either purchased, placed in financing structures or leased on an operating basis by air carriers. The leasing costs are recorded in the profit and loss statement as expenses for materials and services, whilst Company owned aircraft, by contrast, will be depreciated.



01) Preface
 02) Letter to Shareholders
 03) Chairman's Report
 04) Directors' Report
 Business Review
 05) Financial Review
 06) Financial Statements
 07) Appendix

Ongoing strong economic growth around the world, acceleration in Europe

ECONOMIC ENVIRONMENT

In 2006 the GLOBAL ECONOMY, with a 5 per cent increase, even exceeded the previous year's powerful growth by a few tenths. In this environment of strong growth, all the major industrialised states moved forward whilst China, with a good 10 per cent increase in gross domestic product (GDP), once again proved to be a global growth engine. The EURO ZONE and thus the entire European economic region surely provided the biggest surprise. GDP growth for the entire common currency area came to 2.7 per cent, after 1.4 per cent in the previous year, well ahead of original expectations. Great Britain was also able to achieve a significant increase, from 1.9 per cent to 2.7 per cent. On the other side of the Atlantic, unabated strong consumption is driving US growth at 3.6 per cent. The strength of the forces buoying up world business becomes particularly apparent as oil prices have climbed to all-time highs.

Germany as a surprise candidate. Growth tripled in 2006!

The DYNAMIC business environment in Germany has made a critical contribution to surprisingly fast growth in Europe. The six leading economic research institutes were required to revise their business forecasts upward several times during the course of the year. The growth rate finally calculated at 2.7 per cent, three times the previous year's slender 0.9 per cent increase, was nonetheless unexpected. Consensus in the meantime is that Germany entered a self-sustaining boom in 2006. Flourishing exports for several years have exerted effects on domestic business, prompting investments and creating hundreds of thousands of new jobs. This, in turn, brightens the mood among consumers, a development that has a beneficial effect on air travel.

Regrettably no clear
skies ahead. Oil prices
are again erratic

Oil price developments

The prices for crude oil and aviation fuel are naturally closely correlated and almost always move in parallel with very short lead times. A clear trend has been observed for years. The price fluctuations for aviation fuel are, as a rule, wider and the general upward trend in recent years stronger for aviation fuel than for crude oil. This also was the case in the 2006 business year. During the course of the year prices through late summer first rose strongly and thus corrected the downward trend in the latter half of 2005.

Following the quiet hurricane season in the Gulf of Mexico, the oil price, previously pushed up by speculators for geopolitical reasons, once again fell steeply by approximately 20 U.S. dollars after having reached a HISTORICAL PEAK of 93 dollars per barrel for Brent crude. Developments in aviation fuel were comparable although the zenith of almost 100 U.S. dollars reached, albeit briefly, in the previous year was not quite attained this year.

The flat interest struc-
ture curve in Europe
relaxed in 2006

Interest and currency developments

After the US Federal Reserve Bank raised the prime rate to 5.25 % in mid 2006, the European Central Bank followed suit, raising its prime rate in several small steps, reaching 3.50 % at the beginning of December 2006. A large part of the interest paid in U.S. dollars was managed by HEFDGING into the euro at fixed interest rates—with interest rate and currency swaps. These contracts also insulate us against the risks associated with exchange rates for financing undertaken in U.S. dollars. Movements in the exchange rates for the main currency pair, the euro and the U.S. dollar, resulted in a major weakening of the dollar in 2006. Following EUR/USD exchange rates of approximately 1.18 in January, the euro rose toward 1.27 at midyear and in the fourth quarter came close to the 1.34 mark. Air Berlin took advantage of the decline of the dollar through forward exchange transactions and currency options for periods up to the end of 2008. In so doing, a hedge quota of approximately 85 % will be achieved in 2007 (up to 90 % on a monthly basis) and approximately 50 % in 2008.



01 Air Berlin

02 Air Berlin Notes

03 Air Berlin Notes

04 Directors Report

Business Review

05 Air Berlin Governance

Air Berlin's Sustainability

07 Appendix

2006 was an average year for the international aviation industry

Developments in the aviation industry

According to IATA figures passenger volume in international air traffic rose by 5.6 per cent in 2006 to 2.14 billion. Although this rise is not as high as the prior year's rise of 7.3 per cent, it generally corresponds to the industry's average for LONG-TERM GROWTH. Cargo volumes, increasing by 5.0 per cent, were similar to the previous year's growth. Industry's sales, according to IATA, rose by 8.0 per cent, from 413 billion USD to 446 billion USD. At the global level, and after five years of losses, the industry barely reached the break-even point with respect to net profits. At an estimated 2.5 per cent the operating margin for the industry is, however, still considerably more than one percentage point below the 2000 level, the year before the attacks in New York City and Washington D.C.

The costs for aviation fuel have increased almost 250 per cent from the year 2000

According to IATA estimates for 2006, the airlines spent 112 billion USD for aviation fuel 23 PER CENT MORE than in the previous year. This is almost two and half times the level spent in 2000, with an expenditure of 46 billion USD. By comparison, passenger volumes in the same time period rose by only 34 per cent, freight volume by 36 per cent. Fuel is the most rapidly growing cost in the industry. Accordingly, the share of fuel cost in relation to overall costs in global air traffic, in spite of modern engines and redoubled efforts to reduce consumption, has nearly doubled, from 14 per cent in 2000 to 26 per cent in 2006.

Expenses unrelated to fuel have risen only by 23 per cent in the same period. Their share of total costs has declined from approximately 85 per cent to 74 per cent. At Air Berlin fuel cost in the 2006 business year accounted for approximately 22 per cent of total costs. Due in part to a new and modern fleet these costs are significantly below the international average.

The demand for low-cost flights in Germany grew strongly again in 2006. According to preliminary estimates by the German Airport Working Group (Arbeitsgemeinschaft Deutscher Verkehrsflughäfen—ADV) more than 40.3 million passengers travelled through German airports, 29 per cent more than in 2005. The market share held in Germany by low-cost carriers is 23.3 per cent. As a matter of caution, it should be noted that these statistics are 'passenger figures' and count arriving and departing passengers including those changing planes. This automatically leads to double counting. Although indicative of certain patterns, these figures are only of limited use.

In November of 2006 the 28 low-cost carriers monitored by the ADV flew a total of 453 routes in domestic and international service. This represents an expansion by approximately 25% over 2005.

)

OPERATIVE DEVELOPMENT

In the 2006 business year Air Berlin set benchmarks in several respects

- ✈ With its INNOVATIVE CONCEPTS Air Berlin has grown faster than air traffic in general. More and more people are now flying with – and in the future will want to be flying with, Air Berlin.
- ✈ With the STRATEGIC EXPANSION of our European route network outside Germany we have once again been successful in further establishing our market position in Europe.
- Through both organic growth and by applying combined acquisition power we have UTILISED OUR POTENTIAL to an impressive extent.
- ✈ With our INITIAL PUBLIC OFFERING we further strengthened our position in preparation for above-average, profitable growth in future.
- ✈ We have established ourselves as a STRONG PLAYER in an attractive segment of the European investment markets.
- ✈ In summary: Our unique business model as a quality provider, offering superior service and moderate prices, has met with POPULAR ACCEPTANCE among customers and investors.

Passenger travel and the fleet

In 2006 Air Berlin (excluding dba) transported 12.5 per cent more passengers: 15.23 million as compared with 13.54 in the previous year. From September through December 2006 dba contributed a further 1.56 million passengers. Thus a total of 16.79 million passengers travelled with Air Berlin aircraft in 2006. Looking at the year as a whole, Air Berlin and dba carried 19.70 million passengers.



01) Content
02) Airport Airlines
03) Press Release
04) Directors' Report
Business Review
Corporate Governance
Financial Statements
05) Appendix

Air Berlin and dba (31 Dec)

	+/- %	2006	2005
Aircraft	+11.4	88	79
Flights	+15.4	170,629	147,896
Destinations	+15.5	97	84
Passengers (thousands, "Pax")	+12.6	19,702	17,505
Seats available (millions, Capacity)	+12.5	26.2	23.3
Available seat kilometres (billions, "ASK")	+6.0	31.40	29.62
Revenue passenger kilometres (billions, "RPK")	+6.8	24.45	22.90
Passenger load factor (%, Pax/capacity)	+0.1	75.27	75.23
Number of block hours	+10.2	301,475	273,523

Figures for Air Berlin and dba for the entire 2006 business year

The Air Berlin business model with its three pillars—charter, single seat sales for business travel and tourism, and corporate customers has once again clearly demonstrated its viability in the competitive environment. As a provider of value-added service with an innovative range of products in the broad niche between the low-cost carriers and the legacy airlines, the Company in 2006 maintained its high productivity level of the previous year in comparison with the industry as a whole. The greatly increased number of seats available, growing by 2.9 million or 12.5 per cent, was warmly greeted by the travelling public. Passenger volume rose to the same extent as the number of seats available so that the passenger load factor, expressed as the ratio of the number of passengers to the number of seats available, was maintained at above 75 per cent.



04) Directors' Report

Business Review

21 Appendix

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

Air Berlin (1 Jan — 31 Dec)	+/- %	2006	2005
Palma de Mallorca	+11.9	5,067,479	4,529,321
Berlin (TXL and SXF)	+11.2	2,304,865	2,072,009
Düsseldorf	+17.1	2,101,746	1,794,643
Nürnberg	+18.9	1,839,285	1,546,433
London Stansted	+77.5	1,222,726	689,008
Hamburg	+5.7	1,218,899	1,153,171
Vienna	+13.8	1,057,825	929,702
Hannover	+14.9	987,021	858,750
Zürich	+37.8	952,611	691,228
Paderborn	+9.0	797,671	731,681
All others	+7.8	11,603,968	10,763,349
TOTAL	+13.2	29,154,096	27,759,295

Joint passenger volume for Air Berlin and dba at the ten most important dba destination airports, departures plus arrivals, including connecting flights

Air Berlin and dba (1 Jan — 31 Dec 2006)	+/- %	2006	2005
Berlin (TXL, SXF and THF)	+9.6	4,055,158	3,700,369
Düsseldorf	+16.3	3,123,468	2,684,955
Munich	+3.5	2,686,297	2,596,616
Nürnberg	+26.2	2,055,746	1,628,774
Hamburg	+10.0	2,016,082	1,832,098
Cologne	+0.9	1,262,414	1,251,420
Hannover	+16.3	1,185,213	1,019,357
Stuttgart	+1.5	814,594	802,328
Münster-Osnabrück	-5.7	805,075	853,305
Paderborn	+9.0	797,671	731,681
All others	+16.1	19,262,272	16,596,470
TOTAL Air Berlin and dba	+13.0	38,063,990	33,697,373
TOTAL dba only	+12.2	8,909,894	7,938,078



01
 02
 03
 04) Directors' Report
 Business Review
 05
 06
 07
 08
 09
 10
 11
 12

The growth in passenger volume was evenly distributed across the major airports even though some facilities—London Stansted, Zurich and Nurnberg—enjoyed markedly higher growth rates. The growth in London (+77.5 per cent) and Zurich (+37.8 per cent) are due exclusively to organic growth whilst Nurnberg (+26.2 per cent) profited from the inclusion of dba. Continuing to occupy the top spot among all Air Berlin destination airports in 2006 was Palma de Mallorca. With growth of almost 12 per cent, the five million passenger milestone was passed. London Stansted, with more than 1.2 million passengers, has advanced to become the second largest non-German airport.

Seats sold (Pax)

	+/- %	2006	2005
Air Berlin	+12.5	15,227,587	13,536,526
dba	+12.8	4,474,184	3,968,203
Air Berlin, incl. dba (pro forma) 1 Jan — 31 Dec	+12.6	19,701,771	17,504,729
Air Berlin, incl. dba since initial consolidation 1 Sept — 31 Dec	+11.8	16,799,819	15,030,502

The seasonal effects on the utilisation rate did not change significantly in 2006. The second and third quarters of the business year—reflecting the summer holiday season—continue to exhibit the highest utilisation rates. With the acquisition of dba and the optimisation of scheduling for both airlines in a joint timetable, excellent progress with regard to utilisation was achieved in the fourth quarter of 2006. This period was, however, too short for such changes to be reflected in a significantly higher utilisation rate. We are anticipating major progress in 2007.



04) Directors' Report

Business Review

Seasonal effects in utilisation (Pax/capacity)

Air Berlin and dba		2006	2005
Q1	Pax	3,730,478	3,285,226
	Capacity	5,538,025	4,728,979
	Utilisation	67.36 %	69.47 %
Q2	Pax	5,354,181	4,719,841
	Capacity	6,832,798	6,265,650
	Utilisation	78.36 %	75.33 %
Q3	Pax	5,994,071	5,272,381
	Capacity	7,430,172	6,392,223
	Utilisation	80.67 %	82.48 %
Q4	Pax	4,623,041	4,227,281
	Capacity	6,373,058	5,881,441
	Utilisation	72.54 %	71.87 %
Entire year	Pax	19,701,771	17,504,729
	Capacity	26,174,053	23,268,293
	Utilisation	75.27 %	75.23 %

Corporate fleet Air Berlin and dba (31 Dec)

	Number in 2006	Number in 2005	Range (km)	Seats
Boeing 737-800	35	37	5,500	186
Boeing 737-700	6	3	6,100	144
Boeing 737-500	1	1	5,200	112
Boeing 737-400	0	5	5,000	167
Boeing 737-300	14	14	4,400	144
Fokker 100	17	17	4,300	100
Airbus A320	11	2	5,200	174
Airbus A319	4	0	5,200	144

At the end of the 2006 business year the Air Berlin fleet comprised 88 aircraft, nine more than in the previous year. Significant to the fleet composition is the large increase in the number of A320 aircraft. The Boeing 737-400 were disposed of and are no longer part of the fleet. In the 2007 business year the Air Berlin fleet will be expanded by a further 15 Airbus aircraft and nine Boeing aircraft.

DEVELOPMENTS IN THE WORLD OF FLIGHT

Shares of ticket sales in 2006, by distribution channels, in per cent

Individual ticket sales	65.1
Air Berlin website	29.4
Air Berlin Service Center	4.0
Air Berlin ticket counter	2.0
Travel agencies	27.0
Internal sales	2.7
Charter and tour organisers	34.9

Air Berlin sells about two-thirds of its tickets through single seat ticket sales and one third through tour operators and tour organisers. This split is unique among the European low-fare carriers, most of whom are hardly active in the charter sector. Single seat ticket sales at Air Berlin also exhibit a unique quality. More than a quarter of all tickets, almost as many as through our own website, are sold through travel agencies. Accordingly, Air Berlin can rely on three solid distribution channels, each of which is targeted for expansion. Ticket sales through our own Service Center also are further promoted.

With its strong brand and extensive customer base, Air Berlin systematically exploits the potentials of additional services associated with flying, not only among travellers but also in the technical and promotional sectors. Building on the core business of holiday, business and shopping flights, the product range for travellers will be ambitiously expanded. The Air Berlin website, the Service Center, available around the clock seven days a week, and the more than 13,000 travel agency offices represent the most important distribution channels.



01 F l e t f l

02 A i r l i n e s

03 M a n a g e m e n t

04 D i r e c t o r s ' R e p o r t

Business Review

05 C o m p a n y G o v e r n a n c e

06 F i n a n c i a l R e s u l t s

07 A p p e n d i x

Revenues from additional products and services associated with flying, in per cent

In-flight sales	28.1
Credit card business	12.6
Excess luggage	10.2
Air Berlin Card	3.6
Seat reservations	3.6
Technology	22.5
Promotional	8.6
Others	10.8

Included among the additional products are car rentals and travel insurance services. In the 2006 business year the service and product ranges on board were further expanded, including additional meals and high-quality service, such as the "Sansibar" meal, which has become very popular among our customers. Additional in-flight products or tickets for ground transportation are further examples from which our customers will profit.



01	Annual Report
02	Chairman's Report
03	Management Report
04	Directors' Report
05	Business Review
06	Financial Review
07	Appendix
08	Index

Acquisition of dba

In August 2006 Air Berlin acquired all the shares in dba which from 1 September 2006, has been fully consolidated. This transaction completed an essential step toward accelerating future growth. In addition thereto, Air Berlin has announced its intention to play a significant role in shaping the consolidation process in the European LCC sector and doing so from a position of leadership. The acquisition of dba has augmented the Air Berlin product range in an ideal fashion and moreover has opened numerous synergy and growth potentials.

- ✈ No redundancies. The integration of the domestic dba routes into Air Berlin's European route network was completed smoothly within a short period of time, at very low costs. The network, which became denser through this acquisition, and the additional options for attractive connecting flights opened up significant growth potentials.
- ✈ An ideal complement. The Air Berlin route network was expanded with additional slots at strategically important airports, some with slot-controlled airports in particular Munich and Dusseldorf, exactly where Air Berlin itself on its own, could have grown only with a considerably larger commitment of resources.
- ✈ Better product mix. With the dba acquisition, Air Berlin acquired 70 additional corporate travel contracts which has resulted in the expansion into the attractive business travel sector.
- ✈ Additional business. The unification and optimisation of price management have made it possible to improve the average yields per passenger and per passenger kilometre.
- ✈ Greater access. The addition of the dba flight slots increases opportunities for accessing customers via the Air Berlin distribution channels, in particular through the Air Berlin Service Center and through 13,000 travel agency offices in Germany. Travel agencies in turn, have a more extensive range of products on offer.
- ✈ Higher productivity. With seasonal optimisation of fleet scheduling there is considerable potential for extending the block hours since the tourism and business sectors exhibit different seasonal patterns. dba equipment can, outside the business season, be used to increase frequencies on the tourist routes in the summer. In return, the larger Air Berlin planes can be deployed on the heavily travelled dba domestic routes, with capacity increasing from 130 to 180 available seats. An overall increase in annual block hours per aircraft, from 2,500 to 3,600, is anticipated.
- ✈ Improved financing, greater procurement reliability. Our assumption of the attractive dba purchase agreement for 25 Boeing 737-700 aircraft will make it possible beginning in 2008,

to replace equipment that has to date been leased. Under this agreement, there also is an option for 15 further units at attractive terms. Including the 60 Boeing 737-800 aircraft that Air Berlin ordered following the acquisition, the overall order volume comes to 85 Boeing aircraft.

- ✈ Lower costs: Larger purchasing volumes give rise to economies of scale, particularly with respect to variable costs. Our negotiating position vis-a-vis airport operators has improved and unified logistics promise considerable savings. In addition, the joint market presence under a single brand offers cost-cutting potentials.

Integrating dba

dba will continue to operate as an independent subsidiary within the Air Berlin Group. Its integration into the Air Berlin Group was launched immediately after the acquisition and was implemented smoothly and largely as originally planned. As a result the flight schedules, including flight management, were co-ordinated and in November customers were presented with a consolidated winter timetable.

Further steps for 2007 have been clearly defined and have been implemented without deviation. Among these are, in particular, the unification of our market presence under the Air Berlin name as well as the creation of a joint summer timetable from 1 April 2007. Furthermore, the synergy effects with respect to cost and productivity will be systematically implemented.



1	1
2	1
3	1
4	1
04) Directors' Report	
Development in	
Financial Figures	
Future Goals	
Additional Statistics	
Appendix	

DEVELOPMENT IN FINANCIAL FIGURES

Strong growth. Air Berlin is looking back on a successful business year: Organic growth proved to be robust and dba provided additional contributions to revenue.

RESULTS

Air Berlin reports a 29.6 per cent rise in consolidated overall revenue, to 1,575.4 million euros in 2006 (2005: 1,215.2 million euros). Solid organic growth in passenger volume as well as the acquisition of dba contributed to this rise. The comparable increase in revenue at Air Berlin prior to the acquisition, came to 16.2 per cent (1,411.9 million euros up from 1,215.2 million euros).

Revenues derived from single seat sales rose by 37.3 per cent to 867.9 million euros from 632.3 million euros in the previous year. 15.6 per cent of this increase is attributable to dba. In the charter segment, Air Berlin was able to increase revenue by 18.8 per cent, to 589.9 million euros from 496.7 million. This rise resulted almost entirely from organic growth. Supplementary revenues (ground and other services) grew at rates significantly above average. They climbed by 42.0 per cent to 101.2 million euros from 71.3 million euros.

With the exception of personnel expenses, all the operating expenses exhibited below-average growth rates. Thus the rise in the expenses for materials and services of 26.7 per cent to 1,094.5 million euros (2005: 864.1 million euros) could be kept about three percentage points below the expansion in revenue—in spite of the tremendous increase in the expenditure for fuel (by more than 44 per cent, from 239.5 to 345.8 million euros). This was also in spite of significantly higher leasing expenditures resulting in part from the acquisition (up 33.3 per cent, from 96.2 to 128.2 million euros). The rise in all the other expenses for materials and services could, by contrast, be kept down to 16.4 per cent. Personnel expenses climbed by 39.7 per cent to 163.3 million euros (2005: 116.9 million euros). Here in particular the investments in the future for management, distribution and service capacities to underpin growth took effect. Depreciation in 2006 was, as planned, at a level only slightly different from the previous year. It rose by 2.6 per cent to 64.2 million euros, following 62.6 million euros the year before.

The EBITDAR (earnings before interest, tax, depreciation, amortisation and rent, i.e. aircraft leasing expenses), rose by 103.3 million euros, or 67.4 per cent, to 256.5 million euros (after 153.2 million euros in 2005). EBITDAR is calculated as follows:

In millions of euros	2006	2005
Result from operating activities	64.1	-5.5
Depreciation and amortisation	64.2	62.5
Operating leases for aircraft and equipment (included in Expenses for materials and services)	128.2	96.2
EBITDAR	256.5	153.2

Ticket revenue rose in 2006 by 29.6 per cent, supplementary revenues by 42.0 per cent

Fuel costs rose by more than 44 per cent in 2006

As a result of the overall below average rise in operating expenditures, EBIT (which is equal to the result from operating activities) of 64.1 million euros was reported, representing a considerable improvement over the losses of 5.5 million euros reported for the previous year.

Consolidated profit for the year 2006 rose to 50.1 million euros, earnings per share to 0.95 euros

Net financing costs improved from a negative 65.4 million euros in the prior year to a negative 19.7 million, a positive swing of 45.7 million euro. This resulted among other things from the introduction of hedge accounting according to IAS 39 during the financial year. Thus the cumulative negative market value of 10.8 million euros resulting from the forward-exchange transactions and the cumulative negative market value of 20.2 million euros resulting from the commodity swaps were shown as a change in equity for the first time during the financial year. The Group's profit before tax experienced a significant turnaround of +116.0 million euros. Following before tax losses of 70.9 million euros in 2005, this year a profit before tax of 45.1 million euros was earned. The consolidated profit for the year came to 50.1 million euros after tax, compared with a loss of 115.9 million euros in the previous year. Consequently Air Berlin, after reporting negative earnings per share of 2.90 euros last year, achieved basic and diluted earnings per share amounting to 0.95 euro.

BALANCE SHEET AND CASH FLOW

Total assets rose by 49.5 per cent

The balance sheet for the 2006 business year was, of course, greatly impacted by the IPO in May and the acquisition of dba in August. In addition, Air Berlin has invested in new flight equipment. Total assets have increased accordingly, rising from 1,061.9 million euros in 2005 to 1,587.9 million euros in the reporting year. This represents a 49.5 per cent increase.

As regards non-current assets, the acquisition of dba makes itself apparent particularly in the first-time reporting of goodwill (20.3 million euros), landing rights (69.9 million euros) and trademarks (1.9 million euros) totalling 92.1 million euros. In addition, the owned aircraft fleet rose by 23.5 per cent to 879.6 million euros, up from 712.1 million euros. All in all, non-current assets rose by 42.4 per cent to 1,074.5 million euros, up from 754.7 million euros last year.

The current assets, largely due to the IPO, have grown strongly by 67.2 per cent, from 307.1 to 513.4 million euros. The IPO, after deducting the associated costs (of 15.7 million euros net), strengthened the shareholders' equity by 219.1 million euros. Even after the net expenditures for the dba acquisition of 83.5 million euros, cash and cash equivalents at the 2006 balance



1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

04) Directors' Report

Development in

Financial Figures

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

Shareholders' equity has more than doubled, the equity ratio rose from 18.6 per cent to 28.2 per cent

sheet date (without considering bank overdrafts of 87.8 million euros, which are shown under current liabilities) rose, essentially due to the IPO by 67.1 per cent to 315.9 million euros (compared with 189.1 million euros the year before). The rise in the other current assets is due in large part to receivables from the sale of fixed assets.

Following this inflow of funds and due to the good result from operating activities in the reporting year shareholders' equity has more than doubled. With the issue of 19,742,817 new shares as part of the IPO, each share with a face value of 0.25 euros, share capital rose by 4.9 million euros. At an issue price of 12 euros, the result was a share premium of 229.9 million euros before the deduction of the IPO costs. This is a total of 234.8 million euros. In total, shareholders' equity rose by 127.1 per cent to 447.8 million euros, up from 197.2 million euros for the prior year. The equity ratio (shareholders' equity divided by total equity and liabilities) at the 2006 balance sheet date was 28.2 per cent (2005: 18.6 per cent).

The liabilities have generally grown at a below-average rate. The non-current liabilities rose to 557.4 million euros (from 477.8 million euros), due primarily to the new aircraft purchased in 2006. The current liabilities have increased from 386.8 million euros in 2005 to 582.7 million euros in 2006, corresponding to the increase in current assets. The total liabilities subject to interest payments (interest-bearing liabilities and liabilities due to bank from assignment of future lease payments) rose from 498.4 euros in 2005 to 679.4 million euros in 2006; liabilities due to bank from assignment of future lease payments accounted for 558.5 million euros (compared to 450.7 million euros in 2005).

Investments more than trebled in 2006

The cash generated from operations exhibits a striking increase during the reporting period, increasing by 47.3 million euros from 84.7 million euros last year to 132.0 million euros in 2006. This rise is primarily the result of the strong increase in result from operating activities. Following tax and interest payments of a net of 22.4 million euros (18.9 million euros in the prior year) the net cash flows from operating activities in 2006 came to 109.6 million euros, compared with 65.7 million euros in the prior year.

A total of 373.5 million euros were expended on investing activities in 2006 (equal to cash flow from investing activities, 102.9 million euros the previous year). This results primarily from the procurement of aircraft, accounting (net) for 241.8 million euros compared with 74.1 million euros in 2005 and the net expenditures for the dba acquisition of 83.5 million euros. The payments for purchasing aircraft were financed with new bank loans in the same extent. Furthermore the cash flow from financing activities was strengthened by the net cash inflows of 193.5 million euros, after taking into consideration transaction costs of 39.3 million euros derived from the IPO. The total cash inflow from financing activities was positive 303.3 million euros during the 2006 business year.



| |
|------------------------------|
| 01) Introduction |
| 02) Letter from the Chairman |
| 03) Chairman's Report |
| 04) Directors' Report |
| Social Responsibilities |
| 05) Compensation |
| 06) Financial Statements |
| 07) Appendix |

SOCIAL RESPONSIBILITIES

Strengthening the Air Berlin team Air Berlin gained 719 new employees with the acquisition of dba. In particular, the service-oriented sectors were bolstered

EMPLOYEES

Air Berlin significantly increased its staff in the 2006 business year. This happened above all through the acquisition of dba, bringing 719 new employees to the organisation. The aim is synergy through EXPANSION OF BUSINESS and not primarily from cost savings. Increase in productivity is key. This is to be realised with the new, expanded team and on the basis of additional activities. Staffing adjustments resulting in redundancies will only occur where there is duplication of roles that would not be offset by additional growth.

In 2006 Air Berlin directed clearly defined efforts at ensuring growth, access to customers and on board service. As a consequence, we have HIRED new people especially in these areas. Thus clerical operations were expanded and, in order to strengthen management resources, the position of Chief Financial Officer was created in February of 2006. The sales departments showed the greatest percentage of growth. On the one hand, our goal is to respond to customer wishes even faster and more comprehensively. Our own team, with highly motivated employees working in our own Service Center, is absolutely necessary as the direct interface with the customer. On the other hand, communications with the capital markets, ultimately as a consequence of the IPO, were strengthened with the establishment of an Investor Relations Department.

Among the flying personnel, the number of cockpit employees was increased by one third — the direct result of organic and acquisition-related growth. Moreover, 435 flight attendants were trained and hired in 2006. The number of employees in the CHS subsidiary (Cabin und Handling Services), which also employs the cabin crew, rose from the previous year's 1,349 to 1,625. With this the number of flight and cabin crew increased to 1,788 at 31 December 2006 (2005: 1,379).

42 young individuals began apprenticeships at Air Berlin in 2006 in vocational training in careers associated with flying. One-third of these apprentices were trained as travel clerks, one-third as air traffic clerks, and one-third as office communications clerks. Eight apprentices completed their TRAINING successfully in 2006. They all moved on to regular employment within the Company.

In February 2007 Air Berlin started pilot training in co-operation with TFC (Technic Flight Consulting). The NEW FLIGHT SCHOOL provides complete training from the very first step to full accreditation.

After 24 months, training concludes with the awarding of the commercial pilot's license (CPL-IR). The students are taught in small classes with a maximum of 15 students using the latest available

Air Berlin welcomes
the dba staff

Growth, access to cus-
tomers, service. Human
resources were syste-
matically expanded in
these fields in 2006

New flight school with
complete pilot training

technology. Due to the coming legal changes regarding the schooling possibilities for commercial pilots, Air Berlin will be one of the first to offer the MPL (Multi Pilot Licence) training programme in Germany. Air Berlin together with Commerzbank and Deutsche Bank facilitates the financing of their training. A loan of up to 60 000 euros will be made available to the flight students. During the training period Air Berlin covers the payment of interest.

Air Berlin created 621 new jobs in 2006 – that is a 23 per cent increase!

At the close of the reporting year, the Air Berlin Group employed 2,174 women and 1,863 men, for a total staff of 4,037 together with 71 persons in internships and temporary workers (students and retirees). At the end of 2005 there were 2 714 regular employees and 50 interns and temporary workers at Air Berlin. The number of employees rose by 1 323, of whom 702 were dba staff. Adjusted for the 702 new dba employees, Air Berlin created 621 NEW JOBS in 2006. The employees at Air Berlin are on average just under 33 years old. Air Berlin employs a total of 227 persons in other European countries. 161 of them in Spain. dba does not have any employees in other countries. Of the 3,335 employees at Air Berlin, excluding dba, 332 are part-time workers. In addition, 86 flight deck employees are taking advantage of an employment model known as "Take a Month Off" with adjusted salaries.

Depending on the particular Air Berlin station, a certain number of captains and/or co-pilots can participate in the "Take a Month Off" programme in the summer season (1 May to 31 October) and/or the winter season (1 November to 30 April) each up to a maximum of three months. Taking this into consideration, the number of part-time employees is 12.5 per cent.

2006
p. 11-12

Employment structure

| | 31 Dec 2006 | 31 Dec 2005 |
|-----------------|--------------|-------------|
| Flight crew | 816 (154)* | 507 |
| Cabin crew | 1,419 (293)* | 962 |
| Technical staff | 438 (121)* | 288 |
| Administration | 1,435 (134)* | 1,007 |
| Total | 4,108 (702)* | 2,764 |

Total number of Air Berlin employees: in brackets the number of dba employees



01. Geschäftsbericht

02. Geschäftsbericht der Tochtergesellschaften

03. Geschäftsbericht der Tochtergesellschaften

04. Directors' Report

Social Responsibilities

05. Geschäftsbericht der Tochtergesellschaften

06. Geschäftsbericht der Tochtergesellschaften

07. Appendix

EMPLOYEE COMMUNICATION AND PARTICIPATION

In order to improve internal communication, Air Berlin has an "open door" policy. The flat organisational structure leads not only to more efficient communication but also promotes a culture of togetherness at the same time.

Air Berlin regularly and promptly informs its employees with respect to Company-related matters and in particular those of economic and financial nature. This is done both with central methods of communication such as through the Company's own Intranet (Corporate Web) and the Internet, as well as over the Board's regular "letters to the employees". Further, new employees receive a package with information about Air Berlin.

Air Berlin considers itself an equal-opportunity employer and welcomes applications from all persons, including those with disabilities. If an employee were to become disabled, the Company would try to maintain continuity of employment, provided that there are duties which the disabled employee can perform, taking into account the nature of the disability. Air Berlin intends to provide suitable training where possible to develop the careers of disabled employees.

FINANCIAL SECURITY FOR EMPLOYEES

The financial security model at Air Berlin and its subsidiaries is based on three phases:

In the earning phase an additional voluntary accident insurance exists for all flight and cabin crew which far exceeds the benefits of the state accident insurance scheme. Further, Air Berlin provides an entirely employer-financed loss of licence insurance to its pilots, which provides protection for any vocational disability.

If an employee considers early retirement, there is the possibility of building up a so-called value account from the employee's gross salary, with an additional 20% contributed by the employer. This enables the employee to be released from work early while receiving continued compensation payments until the age of retirement has been reached.

Finally, Air Berlin and the CHS subsidiaries offer, according to a legal obligation in Germany, the opportunity for its employees to make contributions to an insurance or a pension fund for their retirement ("Direktversicherung" or "Pensionskasse"). The contributions are financed exclusively from the employee's gross salary. The Group has no financial liability for these retirement schemes.

SOCIAL ACTIVITIES

As the second-largest German airline Air Berlin is aware that business success also implies social obligations. In 2006 Air Berlin gave donations totalling 149,813 euros in connection with the support of social and charitable projects (2005: 121,182 euros). The Company promotes initiatives dedicated to the assistance and support of the disadvantaged in our society.

Among these is the Christiane Herzog Foundation for cystic fibrosis sufferers. Cystic fibrosis is the most frequent hereditary metabolism disorder and a cure has yet to be found. In Germany about 6,000 to 8,000 children and young adults are afflicted. The Foundation is Christiane Herzog's life's work and legacy. True to the slogan, "Helping through Action", she fought for permanent improvement for those afflicted. Since 1996 Air Berlin has supported this foundation in many ways. Each year Air Berlin flies more than 40 children, with accompanying caregivers, to Gran Canaria for rehabilitation therapy. The Company initiates contribution campaigns and sponsors Foundation events.

Since April 2006 Air Berlin has offered its passengers exclusively the "Café Intención" beverage, made by the J. J. Darboven company and awarded the TransFair seal of approval. This is a high-quality coffee purchased in fair trading. Thus the airline supports coffee growers and makes a contribution to their economic survival. The small agricultural co-operatives in Central and South America profit particularly from this arrangement; they receive more than 30,000 euros in direct income.

Air Berlin supports the socially disadvantaged

In addition Air Berlin provides free flights for charitable purposes. In 2006 Air Berlin was a partner to the United People Charity Night staged to the benefit of POWER-CHILD E.V. The purpose of this non-profit organisation is to strengthen children's sense of self-confidence so they can better recognise hazardous situations and defend themselves in specific situations.

POLITICAL DONATIONS

Donations in the amount of 9,600.00 euros were made to political parties in 2006.



Table of Contents
 Air Berlin Annual Report 2006
 Contents

04) Directors' Report

Social Responsibilities

Risk Report

Corporate Governance

Additional Statements

Appendix

COMMITMENT TO THE ENVIRONMENT

Air Berlin is aware of its responsibility for environment-friendly behaviour and adheres to policies designed to keep emission levels as low as possible. For airlines this means in particular reducing

EXHAUST EMISSIONS and effecting NOISE ABATEMENT.

One of the central elements of Air Berlin's environmental commitment is its fleet policy. Our Company operates ONE OF THE INDUSTRY'S YOUNGEST FLEETS. At the close of the reporting year the aircraft were, on average, just 5.2 years old. Investment policies target keeping the average age of the Air Berlin fleet consistently at approximately six years. As a result, fuel consumption is significantly below the industry average.

Other notable cost saving contributions include the incorporation of special features into its aircraft. Almost all aircraft are fitted with the so-called WINGLETS (FOR BOEING AIRCRAFT) OR WINGTIPS (FOR AIRBUS AIRCRAFT), which in each case are small extensions at the tips of the wings. They improve the wings' aerodynamics and contribute to reduced fuel consumption.

A fleet equipped with winglets/wingtips will use up to 3% less fuel than a fleet without such features. All the new orders at Air Berlin are for aircraft with winglets/wingtips. Moreover, the new Air Berlin aircraft also are CONSIDERABLY QUIETER than comparable older aircraft.

This is a competitive advantage as Air Berlin serves in particular airports which are close to or within major cities. The Company contributes to environment protection and to further reduction of fuel consumption by co-ordinating SCHEDULES as efficiently as possible, optimising routes in accordance with prevailing wind and weather conditions, and thus minimising flight times. The same is true for achieving the highest possible efficiency on the ground.

An active contribution
 to environment protection
 with one of Europe's
 youngest fleets

Winglets/wingtips
 save fuel

Young planes are also
 quiet planes

RISK REPORT

A central role Risk management at Air Berlin means increasing the Company's value Risk reduction enables the reduction of costs and reveals business opportunities.

RISK PHILOSOPHY AND POLICIES

As an international airline Air Berlin is confronted with a MULTITUDE OF RISKS. Early identification and control of risks are central tasks for management and every employee. This is accomplished by means of an efficient risk management system that reflects all of the elements of the Company. Through the identification and control of risks, business opportunities can be identified and taken advantage of.

Systematic risk registration and assessment

The AIR BERLIN RISK MANAGEMENT SYSTEM currently in place was introduced in the first quarter of 2006 and is an integral component of our operating and reporting system. The registered risks are continuously updated using computer software. Risk reporting includes the review and assessment of all risks in the individual departments. This may include the new registration or reassessment of risks having regard to the probability of occurrence and the loss potential associated with existing risks as well as identifying risks that have been eliminated. In general a quantitative, i.e. monetary, assessment of risks is undertaken, a qualitative evaluation is permissible only in exceptional cases.

Central registration by the Risk Management Group

Extensive risk reporting, which contains information on current risks and assessments, changes in assessments and the appropriate measures, is submitted each quarter to the RISK MANAGEMENT GROUP, for review and assessment and the implementation of measures where appropriate.

The Risk Management Group ultimately reports significant risks to the Board. Thus risk management at Air Berlin makes a decisive contribution to EARLY RECOGNITION OF STRATEGIC AND OPERATIONAL RISKS and contributes to effectively managing these risks as well as making it possible to recognise opportunities and potential for improvement.

The air travel industry is a classical industry subject to business cycles

GENERAL AND OVERALL ECONOMIC RISKS

The air travel industry is deemed to be a classical "cyclical industry", where changes in the general business climate exert particular impact. CONSUMER BEHAVIOUR and developments in the labour markets can have an exaggerated effect on the tourism sector and thus on passenger volumes to holiday destinations. Air Berlin is exposed to such risks and other outside risks, such as those matters subject to political influence.



1. Introduction
 2. Air Berlin
 3. Financial Results
 04) Directors' Report
 Risk Report
 5. Capital Structure
 6. Environmental Management
 7. Appendix

In addition to early risk
 identification, the busi-
 ness model also reduces
 overall risk through risk
 diversification

The Company limits these general risks in a number of ways. With a strategic and operationally
 focused management together with our commitment to safety, efficiency and cost reduction,
 many risks can be contained. The Company further ensures that sufficient management resour-
 ces are available to reduce the specific risks associated with rapid growth.

Additionally, the Air Berlin business model exhibits specific RISK DIVERSIFICATION components.
 Its positioning as a low-cost airline with premium service aims at the target groups comprising
 holiday travellers as well as business and other leisure travellers. The numerous agreements between
 Air Berlin and European companies with respect to business travel provide a high degree of continuity
 in passenger volumes and reduce risks that can arise from seasonal fluctuations in the holiday travel
 business. Moreover, the Company has a balance of single seat and charter sales. The growing number
 of European destinations outside Germany reduces dependency on the German business climate.

To further reduce the Company's risk exposure, sufficient insurance coverage is obtained to cover
 insurable risks. This cover is managed centrally.

INDUSTRY-RELATED RISKS

Air Berlin sees
 the competitive risk
 as both a challenge
 and an opportunity

The airline industry is HIGHLY COMPETITIVE and this is true especially for the low cost segment.
 Moreover, aviation competes with ground transportation options, particularly with regard to short-
 haul routes. Air Berlin sees these "risks" as challenges that will be overcome with the successful
 hybrid business model. Beyond maintaining our own competitive position, it opens up potentials
 for gaining additional market share from both the flagship carriers and the conventional LCCs.
 The organic growth rates at Air Berlin underscore the success of this approach. To ensure that
 this development continues, the business model is constantly compared against market developments.
 Moreover, Air Berlin stays ahead of the market by continuing to provide new supplementary products
 or "frills" in service. The niche position between the classical flagship airlines and the conventional
 low-cost carriers permits a high degree of flexibility, far beyond pure price-based competition.

The acquisition of dba is an example of the proactive role Air Berlin is assuming in the industry consolidation process

Its unique positioning clearly separates Air Berlin from the conventional European LCC sector and from the problems of overcapacity, where the BATTLE FOR MARKET SHARE is carried out almost exclusively through pricing and, as a result, through cost cutting. Rather, Air Berlin takes advantage of the opportunities of the accelerating consolidation process at the European level. The acquisition of dba, which has further enhanced the Company's service in the German market, is an example of such participation.

The aviation industry is subject to extensive regulation by national and international agencies and institutions.

Air Berlin observes the relevant REGULATIONS AND LAWS with a Company-wide compliance programme. It ensures internal registration and compliance, including the submission of any documentary requirements to the relevant agencies as well as the adaptation of any amendments which are necessary to reflect any changes in the regulations.

Safety and security

Air Berlin continuously does its best to ensure safe and secure operations. Matters with respect to security have in the past and may in the future disrupt operations. Safety and security in the airline industry are subject to strict requirements and legal regulations. The Group fulfils all of these obligations.

Market-driven evaluation of all matters influencing interest and currency rate risks

Financial risks

At the beginning of the autumn 2006 a COMPANY-WIDE TREASURY MANAGEMENT SYSTEM was implemented, it covers and evaluates all matters associated with interest and exchange rates. Both the underlying transactions and the hedging activities are incorporated into this system. The treasury management system includes those hedge relations required by IAS 39 for hedge accounting and the calculations for hedge effectiveness. All the hedging arrangements entered into are continuously monitored and modified as necessary.

Internal guidelines have been developed that define operative action guidelines and cover the subjects of liquidity, foreign exchange, interest, risk, cash and asset/liability management support, diligent and professional services in and with the financial markets. The primary focus is on sufficient liquidity, ensured by comprehensive financial and liquidity planning.



| | |
|----|----------------------|
| 03 | Annual Report |
| 04 | Directors' Report |
| 05 | Risk Report |
| 06 | Financial Statements |
| 07 | Appendix |

Procurement risks

The most important aspect of procurement is, to the extent possible, to maintain flight operations and safety

Professional procurement ensures uninterrupted flight operations and operational safety

The acquisition of the technical equipment necessary for security, operations management, flight operations and service requires procurement to ensure that such equipment will be provided without service disruption

Corresponding to its Company requirements, the orders placed by Air Berlin with suppliers include details with respect to delivery requirements and terms of payment. Generally, depending upon the relevant terms of the underlying agreement, payment of supplies is made upon delivery of the goods or services. Our payment periods are as a rule 30 days. The terms of delivery are generally determined according to ISO 2000 and ISO 9000. As of 31 December 2006, the number of creditor days outstanding for the Group was 12.

Air Berlin draws upon both conventional and state-of-the-art technology to limit the risks associated with information technology and to ensure the safety and stability of the computer systems and databases. This is augmented by regular maintenance pursuant to service contracts concluded with software suppliers.

The Company has also developed numerous solutions, independently and in cooperation with certain service providers, to improve the EFFICIENCY OF FLIGHT MANAGEMENT. Such self-reliance reduces dependency on software manufactured by third parties. With our flight management system, aircraft can be efficiently deployed and routes continuously optimised. This results in considerable cost savings and thus important competitive advantages can be realised. Several factors contribute to maintaining flight operations and ENSURING COMPETITIVENESS. These include a modern, high performance, low-consumption fleet of aircraft, reliable supplies of materials, auxiliaries and operating media and in particular fuel, access to attractive airports and destinations, and sufficient flight capacity during peak periods.

A high-performance, low-consumption fleet lowers costs and significantly reduces risks

Air Berlin maintains trusting and long-term relationships with the two major aircraft manufacturers, Airbus and Boeing. This ensures access to the most modern aircraft which best correspond to the Company's needs.

A MODERN FLEET can significantly reduce costs for maintenance, repair and overhaul. Dependency is avoided and certain advantages in pricing become available. Additionally, by operating both types of aircraft, Air Berlin increases the pilot recruitment pool. Aircraft availability is secured by existing purchase agreements with both manufacturers and options to acquire additional aircraft at agreed, fixed prices.

Planned fleet development

| | Deliveries | | Leasing | Phasing out | Year-end inventory |
|------|------------|--------|---------|-------------|--------------------|
| | Boeing | Airbus | | | |
| 2007 | 1 | 12 | -1 | - | 100 |
| 2008 | 8 | 9 | -8 | - | 109 |
| 2009 | 10 | 9 | -11 | - | 117 |
| 2010 | 13 | 9 | -21 | -3 | 115 |
| 2011 | 14 | 10 | -13 | -3 | 123 |
| 2012 | 13 | - | -5 | -5 | 126 |
| 2013 | 13 | - | - | -6 | 133 |
| 2014 | 13 | - | - | -6 | 140 |



| | |
|-----|---|
| 1 | 1 |
| 2 | 1 |
| 3 | 1 |
| 4 | 1 |
| 5 | 1 |
| 6 | 1 |
| 7 | 1 |
| 8 | 1 |
| 9 | 1 |
| 10 | 1 |
| 11 | 1 |
| 12 | 1 |
| 13 | 1 |
| 14 | 1 |
| 15 | 1 |
| 16 | 1 |
| 17 | 1 |
| 18 | 1 |
| 19 | 1 |
| 20 | 1 |
| 21 | 1 |
| 22 | 1 |
| 23 | 1 |
| 24 | 1 |
| 25 | 1 |
| 26 | 1 |
| 27 | 1 |
| 28 | 1 |
| 29 | 1 |
| 30 | 1 |
| 31 | 1 |
| 32 | 1 |
| 33 | 1 |
| 34 | 1 |
| 35 | 1 |
| 36 | 1 |
| 37 | 1 |
| 38 | 1 |
| 39 | 1 |
| 40 | 1 |
| 41 | 1 |
| 42 | 1 |
| 43 | 1 |
| 44 | 1 |
| 45 | 1 |
| 46 | 1 |
| 47 | 1 |
| 48 | 1 |
| 49 | 1 |
| 50 | 1 |
| 51 | 1 |
| 52 | 1 |
| 53 | 1 |
| 54 | 1 |
| 55 | 1 |
| 56 | 1 |
| 57 | 1 |
| 58 | 1 |
| 59 | 1 |
| 60 | 1 |
| 61 | 1 |
| 62 | 1 |
| 63 | 1 |
| 64 | 1 |
| 65 | 1 |
| 66 | 1 |
| 67 | 1 |
| 68 | 1 |
| 69 | 1 |
| 70 | 1 |
| 71 | 1 |
| 72 | 1 |
| 73 | 1 |
| 74 | 1 |
| 75 | 1 |
| 76 | 1 |
| 77 | 1 |
| 78 | 1 |
| 79 | 1 |
| 80 | 1 |
| 81 | 1 |
| 82 | 1 |
| 83 | 1 |
| 84 | 1 |
| 85 | 1 |
| 86 | 1 |
| 87 | 1 |
| 88 | 1 |
| 89 | 1 |
| 90 | 1 |
| 91 | 1 |
| 92 | 1 |
| 93 | 1 |
| 94 | 1 |
| 95 | 1 |
| 96 | 1 |
| 97 | 1 |
| 98 | 1 |
| 99 | 1 |
| 100 | 1 |

04) Directors' Report Risk Report

Under a risk profile,
the ideal fleet structure
includes both leased and
owned aircraft

In addition to its own aircraft, Air Berlin (including dba) also operates 62 leased aircraft as of 31 December 2006. Leasing aircraft is advantageous inasmuch as it reduces the amount of committed capital and enables faster expansion of the fleet within a short period of time. However, the lease terms are comparatively short and, as a result, there are risks associated with long term planning, especially as leasing rates generally increase at a rate greater than the conditions which can be obtained by Air Berlin through a loan or other financing arrangement. Consequently, the Company will in future successively reduce its share of leased aircraft. The average remaining term for leased aircraft is, at the close of the reporting year, approximately three years. Notwithstanding, the Company will in the future seek to optimise the ratio of operating leased and owned aircraft (whether through a loan or other financing arrangement), taking into account our financing and operational requirements.

To ensure sufficient flight capacity during peak periods and in the event that one of our aircraft is not operational, WET LEASES may be entered into. This type of leasing generally entails the short term provision of aircraft by an operating lessor, together with the flight (and oftentimes the cabin crew) as well as maintenance and insurance. Notwithstanding, the lessee bears the commercial risk.

The supply of materials, auxiliary and operating media is governed, to the extent practicable, by fixed delivery contracts. This is particularly relevant for on-board catering.

Aviation fuel makes
up 22 per cent of the
operating cost

Accounting for approximately 22 per cent of overall operating expenses, aviation fuel represents by far the most significant cost for Air Berlin. Fuel prices are subject to notoriously wide and poorly predictable fluctuations that often enough are only minimally correlated with business developments. Thus, in order to improve planning confidence and to reduce the influence of price fluctuations on profitability, Air Berlin systematically engages in hedging transactions.

Oil price hedging
to improve planning
confidence

In general, a part of the anticipated future fuel costs are hedged on a revolving basis, i.e. for defined time periods through standard financial market instruments such as SWAPS AND OPTIONS. These are handled through a number of renowned financial institutions. The breadth of such hedging must, however, remain economically sensible. In accordance with principles of risk coverage, up to 100 % of the demand is hedged up to three months in the short term, and up to 18 months in advance with sinking quotas.

The Air Berlin network is one of the densest in the LCC sector. Further increases in market share should further improve our opportunities to serve additional destinations. In addition to providing favourable and attractive connections, one of the essential criteria when SELECTING AIRPORTS is the catchment area, which should have the smallest possible overlap with existing catchment areas.

Other factors to be considered include adequate capacities for further growth, flexible with respect to the Company's needs, the minimum possible restrictions on flight operations in order to maintain high utilisation, and generally favourable cost structures.

ENVIRONMENTAL RISKS

Air Berlin undertakes all necessary measures to minimise, avoid, and, where possible, eliminate environmental impact and the corresponding health and safety risks.

A sense of responsibility for the environment, health and safety is actively promoted among all our employees and at all levels. The disposal of waste at Air Berlin is, as far as possible, handled in an environment-friendly fashion.

Ecological awareness is promoted at every level.



- 01) Essentials
- 02) Airport Arithmetics
- 03) Mission & Share
- 04) Directors' Report
 - Outlook
- 05) Corporate Governance
- 06) Financial Statements
- 07) Appendix

OUTLOOK

A good start. Our planning for 2007 is ambitious: Air Berlin intends to continue to grow faster than the industry. The outlook is good.

Increase in passenger volume by 10 to 13 per cent

The Air Berlin Group has had a good start to the new business year. With respect to the combined Air Berlin and dba results, in January there was an 8.7 per cent rise in the number of passengers, to 1.2 million, in February there was an increase of 12.3 per cent to 1.3 million compared to the prior year.

Fleet utilisation tends to be less than average in the first quarter of any year (Q1 2006: 67.36%, Q3 2006: 80.67%) and in the first two months of the current business year these values were 68.6 per cent (compared with 66.7 in 2005). Air Berlin is planning to achieve a 10 to 13 per cent increase in passenger volume, to approximately 22 million, compared with 19.7 million in 2006.

Mallorca, one of the main airports, will continue to be developed

In addition to the expansion of the route network within Germany and the establishment of new Euro Shuttle destinations, such as Stockholm, Gothenburg and St. Petersburg, Mallorca, an important destination for Air Berlin, will be a major source of growth in the business year 2007. For the first time there will be two flights a day to Mallorca from many German airports. This opens up additional transfer options for continuing flights to the Iberian Peninsula (Spain and Portugal), which will appeal in particular to the attractive target group of business travellers.

We also expect the effects of the current cost-cutting programme and improved aircraft utilisation, together with the synergies due to the successful integration of dba, to have a positive impact on our performance.



- 01) Essentials
- 02) Air Berlin Architecture
- 03) Mission & Share
- 04) Directors' Report
Auditors
- 05) Corporate Governance
Report
- 06) Financial Statements
- 07) Appendix

AUDITORS

The Directors have considered the appointment of auditors for the following financial year. At the General Meeting, the Board will propose the reappointment of KPMG Audit Plc as auditors of the Group.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who are members of the Board at the time of approving the Directors' Report are listed on pages 6 and 7. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- ✈ To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware, and
- ✈ Each director has taken all the steps a director could be reasonably expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board and signed on its behalf by

26 March 2007

A handwritten signature in black ink, appearing to read 'J. Hunold'.

Joachim Hunold
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'U. Guttmeyer'.

Ulf Guttmeyer
Chief Financial Officer

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company is committed to good corporate governance and conducts its affairs as described below

The Board comprises five Non-Executive Directors (including the Chairman) and four Executive Directors. In 2006 the full Board met 3 times to consider matters relating to the overall control, business performance and strategy of the Company. The Board has delegated the following responsibilities to the Executive Directors: the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities already established by the Board, the implementation of the strategies and policies of the Company as determined by the Board, the monitoring of operational and financial results against plans and budgets, the monitoring of the quality of the investment process against specified objectives, the prioritisation of the allocation of capital, technical and human resources, and the development and implementation of risk management systems.

The Chairman is responsible for leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all directors are encouraged to participate fully in the activities and decision-making process of the Board. Further details of the Chairman's professional commitments are included in his biography. The Chairman does have a number of outside commitments, including his role as managing director of Phoenix Reisen GmbH and vice president of the German Tourism Association (Deutscher Reiseverband). However, the Board is satisfied that these do not interfere with the performance of his duties as Chairman of the Company.

The Company provides all Directors with a regular supply of information about the Company so that they can be as fully involved as possible in Board meetings. Board papers are distributed to all Directors in advance of any meeting and all Board members have access to Company management for any further information they require. The Company ensures that Board members receive appropriate training as necessary, and independent professional advice is available to Directors at the Company's expense.

The interim results of the Company, along with other press releases, are posted on the Company's website, www.airberlin.com, as soon as they are announced.



- 01) Essentials
- 02) Airport Arithmetic
- 03) Mission & Shares
- 04) Directors' Report
- 05) Corporate Governance Report**
- 06) Financial Statements
- 07) Appendix

The Company has arranged insurance cover in respect of any legal action that may be taken against its Directors and officers in relation to certain losses and liabilities that they may incur in the course of acting as Directors and officers of the Company

Since the Company's admission to trading on the Frankfurt Stock Exchange a number of Non-Executive Directors have been appointed to the Board and, as noted above, the Board has established Audit, Nominations and Remuneration Committees. If the need should arise, the Board may set up additional committees as appropriate. Each Board committee is governed by its own terms of reference.

AUDIT COMMITTEE

The Audit Committee comprises Eckhard Cordes (as Chairman of the committee), Claus Wulfers and Johannes Zurnieden, all of whom are independent, Non-Executive Directors. The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal/external audits and controls, including reviewing the Group's annual financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, to ensure that auditor independence and objectivity is safeguarded, advising on the appointment of external auditors, and reviewing the effectiveness of the internal control systems in place within the Group. From January 2007, the Audit Committee will meet not less than twice a year.

NOMINATIONS COMMITTEE

The Nominations Committee comprises Johannes Zurnieden (as Chairman of the committee), Joachim Hunold, Hans-Joachim Korber, Nicolas Teller and Claus Wulfers, the majority of whom are independent Non-Executive Directors. The Nominations Committee assists the Board in determining the composition, makeup and balance of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors, as the need may arise. The Nominations Committee will also determine succession plans for the Chairman and Chief Executive. From January 2007, the Nominations Committee will meet at least once a year.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Hans-Joachim Korber (as Chairman of the committee), Nicolas Teller and Johannes Zurnieden, all of whom are independent, Non-Executive

Directors The Remuneration Committee assists the Board in assessing its responsibilities in relation to remuneration, including recommending what policy the Company should adopt on executive remuneration, determining the levels of remuneration for each of the Executive Directors and recommending and monitoring the remuneration of members of senior management. The remuneration report on pages 74 to 80 provides full details of the remuneration policies of the Company. From January 2007, the Remuneration Committee will meet at least once a year.

DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

The Company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chairman and Executive Directors. The Company has not yet appointed a senior independent Director to be available to shareholders in the event that contact through the normal channels of Chairman, Chief Executive or Chief Financial Officer is inappropriate or has been unsuccessful, but intends to do so during 2007.

INTERNAL CONTROLS

The overall responsibility for the internal control systems of the Company and for reviewing their effectiveness rests with the Directors. The responsibility for establishing and operating detailed control procedures lies with the Chief Executive. The internal control systems are designed to manage rather than eliminate the risk of failure to achieve certain business objectives and by their nature can only provide reasonable but not absolute assurance against material misstatement or loss.

Since the Company's admission to trading on the Frankfurt Stock Exchange, the Board has established certain processes to identify, evaluate, manage and report upon significant risks faced by the Company. The Company does not have an independent internal audit department capable of performing full and regular monitoring of the Company's procedures, but the Board is of the opinion that the financial record keeping is robust and capable of highlighting significant departures from procedures. Other areas of risk assessment that may normally be carried out by an internal audit department are in the main covered by the Board as a whole. Consequently the directors have confirmed that they do not feel it necessary to expand the internal audit department at this stage.



- 01) Essentials
- 02) Airport Arithmetic
- 03) Mission & Shares
- 04) Directors' Report
- 05) Corporate Governance Report
- 06) Financial Statements
- 07) Appendix

The Chief Executive is responsible for the day-to-day running of the Company, with certain powers delegated to the responsible heads of departments. The delegated authority is subject to various limitations and clearly defined systems of control.

Policies and procedures, which are subject to ongoing review and are updated as required, are communicated across the Company to ensure that they are properly and consistently applied in relation to significant risks, investment decisions and management issues arising within the Company.

The Board believes that this delegated management structure ensures a strong link between overall corporate strategy and implementation within an effective control environment. There has not yet been a full review of the effectiveness of these internal controls, nor has the Company undertaken a performance evaluation in respect of the performance of the Board. The Company intends to undertake a full review of the effectiveness of its internal controls and a performance evaluation in respect of the performance of the Board following the first anniversary of the Company's admission to trading on the Frankfurt Stock Exchange in May 2007.

POLITICAL DONATIONS

At the Annual General Meeting, shareholders will be asked to pass a resolution to approve donations to EU political organisations and EU political expenditure (as such terms are defined in section 347A of the Companies Act, 1985 [as amended]) not exceeding £100,000 (or its Euro equivalent) for a period from the Annual General Meeting until 31 December 2008 or, if earlier, the date of the 2008 annual general meeting of the Company. The Board does not intend to make donations to political parties within the ordinary meaning of those words, but because 'political organisation' is widely defined in the relevant legislation to include, amongst other things, an organisation which carries on activities which are capable of being reasonably regarded as intended to influence public support for a political party in an EU member state, or to influence voters in relation to a referendum in an EU member state it is possible that EU political organisations may include, for example, interest groups or lobbying organisations concerned with the review of government policy or law reform. It may, depending upon the issue, be in the Company's interest to support or participate in such groups or organisations and the purpose of this resolution is to enable the Company or its subsidiaries to do so without inadvertently breaching the legislation.

COMPLIANCE WITH THE COMBINED CODE

As the Company is incorporated in England and Wales but is not listed in the UK, it is not required as a matter of law or regulation to comply with UK corporate governance standards set out in the Combined Code. Neither is it required to comply with German corporate governance standards. Since listing on the Frankfurt Stock Exchange, the Company has taken steps to establish the governance structures required in order to enable it to comply with the Combined Code (with certain exceptions as noted herein). Since the Company's admission to trading on the Frankfurt Stock Exchange in May 2006, the full Board has met three times and has established three committees: an Audit Committee, a Nominations Committee and a Remuneration Committee. The Company expects that these committees will perform the governance role required of them by the Combined Code from January 2007. During 2006, the matters that would ordinarily be reviewed by the various committees were put to the full Board.

The Company has not complied with certain provisions of the Combined Code that are not required by German corporate governance standards and are not customary in the German market. In particular, the Executive Directors of the Company have service contracts with notice periods of greater than one year, their compensation for termination of employment for cause is not reduced to reflect a duty to mitigate loss and the Directors will only be subject to re-election at five year intervals. The Company is of the view that to impose more stringent requirements with respect to these issues would put the Company at a significant disadvantage to other companies in Germany, particularly in terms of the recruitment and retention of senior executives.



- 01) Essentials
- 02) Airport Arithmetics
- 03) Missing Shares
- 04) Director Report
- 05) Corporate Governance
 - Directors' Remuneration Report
- 06) Financial Statements
- 07) Appendix

DIRECTORS' REMUNERATION REPORT

INFORMATION NOT SUBJECT TO AUDIT

Membership and responsibilities of the Remuneration Committee

The Remuneration Committee is responsible, on behalf of the Board, for determining the remuneration packages of the executive directors, the Company's Chairman, the Company Secretary and other senior executives in accordance with the remuneration policy as described below, including bonuses, pension rights (where appropriate) and any share-based compensation payments

In addition, the Committee is responsible for

- ✈ Determining and regularly reviewing the ongoing appropriateness and relevance of the Company's remuneration policy
- ✈ Setting and monitoring performance criteria for any bonus arrangements operated by the Company and its group
- ✈ Approving the length and term of all service contracts for the Company's Chairman, executive directors, Company Secretary and other senior executives
- ✈ Ensuring that the Board maintains contact with its principal shareholders about its remuneration policy, practices and procedures and
- ✈ Generating an annual remuneration report to be approved by the members of the Company at the annual general meeting

The Remuneration Committee consists of three independent, non-executive directors, none of whom have any personal financial interest (other than as shareholder) in the matters to be decided. Following the admission of the Company to the Frankfurt Stock Exchange on 11 May 2006, the following directors were appointed to serve on the Remuneration Committee: Dr Hans-Joachim Korber as Chairman of the Committee, Nicholas Teller and Johannes Zurnieden. From January 2007, the Remuneration Committee will meet at least once a year.

The Remuneration Committee has the right to obtain independent advice when it considers it to be appropriate. The committee chose not to make use of independent consultants in determining remuneration policy.

Directors' biographies are detailed on pages 6 to 7 above.

Remuneration policy

Remuneration policy is determined so as to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance.

and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company

Performance criteria for any bonus arrangements operated by the Company and its group are set and monitored by the Remuneration Committee to ensure that they represent achievable and motivating rewards for appropriate levels of performance and, where appropriate, are justifiable, taking into account the Company's and its group's overall performance and the corresponding return on shareholders' investment in the same period

Service contracts

Each of the directors who served during the period has a fixed service agreement. Details of the Executive Directors' terms of office under their service agreements with the Company are set out below

| Director | Date of service agreement | Term of service agreement |
|---------------------|---------------------------|---------------------------|
| Joachim Hunold | 2 December 2005 | 1 December 2010 |
| Ulf Hutmeyer | 1 February 2006 | 1 December 2010 |
| Karl Friedrich Lotz | 2 December 2005 | 1 December 2010 |
| Elke Schutt | 2 December 2005 | 1 December 2010 |

Prior to the expiry of their service agreements on 1 December 2010, the Executive Directors may be terminated by the Company for cause only. Any Executive Director removed from office prior to the end of the term of their service agreement will be entitled to the remuneration until the end of the term of the service agreement. In consideration for their promise not to compete with the Company's business for a period of one year after the end of their service agreement, each of the Executive Directors will receive 50% of the fixed component of their remuneration for one year.

Remuneration package

The remuneration package of the Executive Directors is comprised of a fixed base salary, a variable bonus scheme, benefits in kind and participation in the Employee Share Plan, which is subject to performance criteria. The Company's policy is to provide a competitive base salary



| |
|--------------------------------|
| 01) Essentials |
| 02) Airport Arithmetics |
| 03) Mission & Shares |
| 04) Director's Report |
| 05) Corporate Governance |
| Directors' Remuneration Report |
| 06) Financial Statements |
| 07) Appendix |

based on the director's responsibilities. The base salaries of the directors currently amount to

| Director | Fixed remuneration per annum (€) |
|---------------------|----------------------------------|
| Joachim Hunold | 750,000 |
| Ulf Hutmeyer | 350,000 |
| Karl Friedrich Lotz | 250,000 |
| Elke Schutt | 250,000 |

The variable component of Directors' remuneration is considered to be at least as important as the fixed (non-performance related) component. The Remuneration Committee will determine the variable component on an annual basis, which will be structured as a bonus payment. Any bonus payments will be determined by comparing the consolidated EBITDAR of the Company with certain benchmarks set in the business plan of the Company.

Performance-related aspects of remuneration

The Executive Directors also received shares in connection with the Company's Employee Share Plan 2006, which was established on 27 April 2006 and amended on 28 November 2006. In connection with the amendment, the beneficial interest in the shares was transferred to Ogier Employee Benefit Trustee Limited (as trustee of the Air Berlin Employee Share Trust) in November 2006 and the directors have the ability to repurchase the beneficial interest in such shares at the end of the respective performance periods, providing the performance criteria are met.

The Company provides each of the Executive Directors with a company car and telecommunication equipment, and each Executive Director is entitled to free or reduced-price travel on flights operated by the Company. In addition, the Company provides the Executive Directors with accident insurance and Directors and Officers insurance with appropriate levels of cover.

Remuneration policy for forthcoming year

Directors' remuneration for the financial year 2007 will be determined according to the remuneration policy described above. Any bonus payments will be determined in the manner described above.

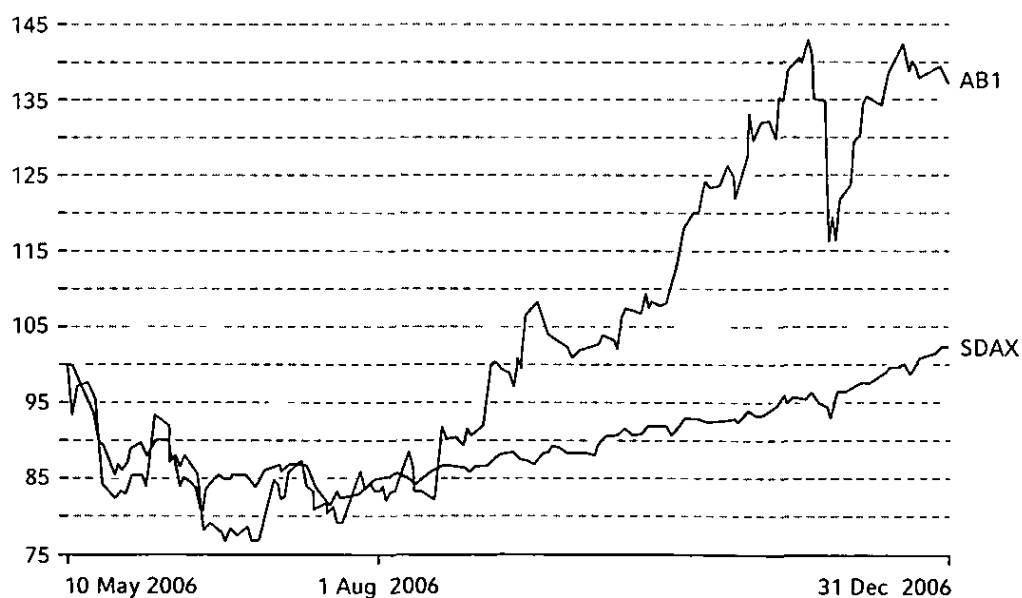
Non-executive directors

The remuneration of non executive directors is determined by the Chairman and the executive directors. No director or executive shall be involved in any decisions as to his own remuneration. In accordance with the Articles of Association, the total aggregate remuneration of non executive directors will not exceed 750,000 euros.

Performance graph

The following graph shows the development of the Company's shares against the SDAX. The SDAX was selected for comparative purposes because it is a broad equity index of which the Company is a constituent.

Relative Performance AB1 vs SDAX, indexed



The Company's share price increased by 37.5% from 12.00 euros on 11 May 2006 (IPO price) to 16.50 euros at year end. The price ranged from 9.20 euros to 17.20 euros during the period.



| |
|--------------------------------|
| 01) Essentials |
| 02) Airport Arithmetics |
| 03) Mission & Shares |
| 04) Directors' Report |
| 05) Corporate Governance |
| Directors' Remuneration Report |
| 06) Financial Statements |
| 07) Appendix |

INFORMATION SUBJECT TO AUDIT

Directors' remuneration

The directors' remuneration during the period was

| In thousands of euros | Basic salary and fees | Taxable benefits | Performance related | | Total 2006 | Total 2005 |
|-------------------------|-----------------------|------------------|---------------------|-----------------------|------------|------------|
| | | | Cash bonuses | Value of share awards | | |
| Executive Directors | | | | | | |
| Joachim Hunold | 750 | 16 | 937 | 46 | 1,749 | 1,006 |
| Ulf Huttmeier * | 350 | 10 | 437 | 46 | 843 | 0 |
| Karl Lotz | 250 | 12 | 313 | 46 | 621 | 223 |
| Elke Schutt | 250 | 9 | 313 | 46 | 618 | 210 |
| Non-executive Directors | | | | | | |
| Dr Hans-Joachim Korber | 50 | 0 | 0 | 0 | 50 | 0 |
| Dr Eckhard Cordes | 50 | 0 | 0 | 0 | 50 | 0 |
| Claus Wulfers | 38 | 0 | 0 | 0 | 38 | 0 |
| Nicholas Teller | 38 | 0 | 0 | 0 | 38 | 0 |
| Johannes Zurnieden | 100 | 0 | 0 | 0 | 100 | 0 |
| Aggregate emoluments | 1,876 | 47 | 2,000 | 184 | 4,107 | 1,439 |

* Figures shown from the date of appointment on 1 February 2006

Directors' interests in shares

The beneficial interests of the directors and their families in the share capital of the Company are as follows

| | Air Berlin PLC / ordinary shares | |
|----------------------------|----------------------------------|-------------|
| | 31 Dec 2006 | 31 Dec 2005 |
| Executive Directors | | |
| Joachim Hunold | 2,100,004 | 2,000,004 |
| Ulf Huttmeier | 30 000 | 0 |
| Karl Friedrich Lotz | 30 000 | 0 |
| Elke Schutt | 30 000 | 0 |

Included in these figures are 30,000 shares per director related to the Employee Share Plan discussed below. In addition, Joachim Hunold has a beneficial interest in 2,500 A Shares, which are non-voting and have limited rights. The Chairman of the Board, Johannes Zurnieden, holds 1,000,268 ordinary shares in the Company as at 31 December 2006. There were no changes to the directors' shareholdings set out above between the financial year end and the date of the report.

Directors' share awards

The number of shares held by the directors at year end under the Employee Share Plan 2006 as amended in November 2006 was as follows:

| | Number of
shares as at 1
January 2006 | Number of
shares award
ed during
the period | Number of
shares as at
31 December
2006 | Exercisable from
subject to perform
ance criteria over
the three-year period
ending |
|---|---|--|--|---|
| Employee Share Plan 2006—Tranche 1 | | | | |
| Joachim Hunold | 0 | 10,000 | 10,000 | 31 Dec 2008 |
| Ulf Hutmeyer | 0 | 10,000 | 10,000 | 31 Dec 2008 |
| Karl Lotz | 0 | 10,000 | 10,000 | 31 Dec 2008 |
| Elke Schütt | 0 | 10,000 | 10,000 | 31 Dec 2008 |
| Employee Share Plan 2006—Tranche 2 | | | | |
| Joachim Hunold | 0 | 10,000 | 10,000 | 31 Dec 2009 |
| Ulf Hutmeyer | 0 | 10,000 | 10,000 | 31 Dec 2009 |
| Karl Lotz | 0 | 10,000 | 10,000 | 31 Dec 2009 |
| Elke Schütt | 0 | 10,000 | 10,000 | 31 Dec 2009 |
| Employee Share Plan 2006—Tranche 3 | | | | |
| Joachim Hunold | 0 | 10,000 | 10,000 | 31 Dec 2010 |
| Ulf Hutmeyer | 0 | 10,000 | 10,000 | 31 Dec 2010 |
| Karl Lotz | 0 | 10,000 | 10,000 | 31 Dec 2010 |
| Elke Schütt | 0 | 10,000 | 10,000 | 31 Dec 2010 |



| |
|---------------------------------|
| 01) Essentials |
| 02) Airport Arithmetic |
| 03) Mission & Shares |
| 04) Directors' Report |
| 05) Corporate Governance |
| Directors' Remuneration |
| Report |
| Statement of the Directors |
| Responsibilities |
| 06) Financial Statements |
| 07) Appendix |

Under the terms of the Employee Share Plan 2006 the directors hold legal title to the shares but will only be able to acquire the beneficial interest to the shares if certain performance conditions are met. 50 % of the shares granted under each of the Tranches are subject to a performance condition based on return on equity achieved by the Company and 50 % of the shares granted under each of the Tranches are subject to performance conditions based on the percentage increase in the Company's Share price over a three-year period as follows:


| Tranche and three-year performance period
(ending 31 December) | Threshold return on
equity element | Threshold share
price growth element |
|---|---------------------------------------|---|
| Tranche 1 2008 | 13% | 35% |
| Tranche 2 2009 | 14% | 38% |
| Tranche 3 2010 | 15% | 40% |

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

None of the non-executive directors are entitled to share options. No options were exercised or lapsed during the period. A detailed description of the Employee Share Plan is also provided in the Notes to the financial statements, see pages 107 to 109.

Approved by the Board and signed on its behalf by

26 March 2007


Joachim Hunold
Chief Executive Officer


Dirk Huttmeier
Chief Financial Officer

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period. The Companies Act 1985 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to

- ✧ Select suitable accounting policies and then apply them consistently,
- ✧ Make judgments and estimates that are reasonable and prudent,
- ✧ State whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- ✧ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



- 01) Essentials
- 02) Airport Aesthetics
- 03) Mission & Shares
- 04) Directors' Report
- 05) Corporate Governance
 - Independent Auditor's Report
- 06) Financial Statements
- 07) Appendix

INDEPENDENT AUDITORS' REPORT THE MEMBERS OF AIR BERLIN PLC

We have audited the group and parent company financial statements (the "financial statements") of Air Berlin PLC for the year ended 31 December 2006 which comprise Consolidated Statement of Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Statement of Cash Flows, the Consolidated and Parent Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 81. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

BASIS OF AUDIT OPINION

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

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



- 01) Essentials
- 02) Airport Arithmetics
- 03) Mission & Shares
- 04) Directors' Report
- 05) Corporate Governance
 - Independent Auditor's Report
 - Changes in the company's Directors
- 06) Financial Statements
- 07) Appendix

OPINION

In our opinion

- ✈ The group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- ✈ The parent company financial statements give a true and fair view in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985 of the state of the parent company's affairs as at 31 December 2006
- ✈ The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- ✈ The information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants, Registered Auditor

2 Cornwall Street

Birmingham B3 2DL

Great Britain

26 March 2007

CHANGES IN THE COMPANY'S DIRECTORS DURING THE 2006 BUSINESS YEAR

Effective 1 February 2006, Air Berlin appointed Ulf Huttmeier as Chief Financial Officer. Vacancies on the Board of Directors were filled on 9 May 2006, two days prior to initial trading. The following were appointed as non-executive directors: Dr Eckhard Cordes (Chairman of the Managing Board at Haniel & Cie GmbH), Dr Hans-Joachim Korber (Chairman of the Management Board at MetroAG), Nicholas Teller (Member of the Management Board of Commerzbank AG), Claus Wulfers (former member of the Board of Directors of Hapag Lloyd AG) and Johannes Zurnieden (Managing Director at Phoenix Reisen GmbH). At its initial meeting on 15 May 2006, the Board elected Mr Johannes Zurnieden as its Chairman.

Air Berlin PLC
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2006

| | Note | 2006
€ 000 | 2005
€ 000 |
|--|------|---------------|---------------|
| Revenue | 20 | 1,575,395 | 1,215,240 |
| Other operating income | 21 | 30,867 | 4,731 |
| Expenses for materials and services | 22 | (1,094,501) | (864,145) |
| Personnel expenses | 23 | (163,293) | (116,903) |
| Depreciation and amortisation | 6, 7 | (64,232) | (62,558) |
| Other operating expenses | 24 | (220,088) | (181,908) |
| Operating expenses | | (1,542,114) | (1,225,514) |
| Result from operating activities | | 64,148 | (5,543) |
| Financial expenses | 25 | (41,917) | (19,026) |
| Financial income | | 7,389 | 2,851 |
| Foreign exchange gains (losses), net | 26 | 14,857 | (49,192) |
| Net financing costs | | (19,671) | (65,367) |
| Share of profit of associates | 27 | 608 | 39 |
| Profit (loss) before tax | | 45,085 | (70,871) |
| Income tax benefit (expenses) | 28 | 4,972 | (45,029) |
| Profit (loss) for the year — all attributable to equity holders of the Company | | 50,057 | (115,900) |
| Basic and diluted earnings per share in € | 12 | 0.95 | (2.90) |




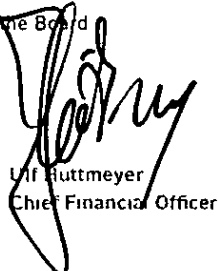
06) Financial Statements

Air Berlin PLC
CONSOLIDATED BALANCE SHEET
as at 31 December 2006

| | Note | 31 12 2006 | 31 12 2005 |
|--|------|------------------|------------------|
| | | € 000 | € 000 |
| Assets | | | |
| Non current assets | | | |
| Intangible assets | 6 | 95,791 | 1,317 |
| Tangible assets | 7 | 936,894 | 752,758 |
| Advanced payments on aircraft, non-current | 7 | 41,086 | 0 |
| Investments in associates | 8 | 720 | 660 |
| Non current assets | | 1,074,491 | 754,735 |
| Current assets | | | |
| Inventories | 9 | 11,914 | 3,201 |
| Trade receivables and other current assets | 10 | 171,416 | 106,596 |
| Prepaid expenses | | 14,116 | 8,147 |
| Investment securities | | 0 | 125 |
| Cash and cash equivalents | | 315,921 | 189,051 |
| Current assets | | 513,367 | 307,120 |
| Total assets | | 1,587,858 | 1,061,855 |
| Equity and liabilities | | | |
| Shareholders' equity | | | |
| Share capital | 11 | 15,009 | 10,073 |
| Share premium | 11 | 214,190 | 0 |
| Other capital reserves | 11 | 217,056 | 217,056 |
| Profit and loss account | | 20,503 | (29,779) |
| Hedge accounting, net of tax | 30 | (18,930) | 0 |
| Currency translation differences | 11 | (22) | 0 |
| Fair value reserve | 11 | 0 | (127) |
| Equity | | 447,806 | 197,223 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 28 | 38,974 | 96,833 |
| Liabilities due to bank from assignment of future lease payments | 16 | 495,414 | 350,829 |
| Interest-bearing liabilities | 16 | 22,970 | 30,154 |
| Non-current liabilities | | 557,358 | 477,816 |
| Current liabilities | | | |
| Liabilities due to bank from assignment of future lease payments | 16 | 63,067 | 99,893 |
| Interest-bearing liabilities | 16 | 97,997 | 17,477 |
| Accrued taxes | | 3,510 | 662 |
| Provisions | 15 | 7 | 1,048 |
| Trade payables and other liabilities | 18 | 236,396 | 122,403 |
| Deferred income | | 15,626 | 14,003 |
| Advanced payments | 19 | 166,091 | 131,330 |
| Current liabilities | | 582,694 | 386,816 |
| Total equity and liabilities | | 1,587,858 | 1,061,855 |

The financial statements were approved by the Board of Directors and authorised for issue on 26 March 2007 and signed on behalf of the Board


Joachim Hunold
Chief Executive Officer


Ulf Gutmeyer
Chief Financial Officer

Air Berlin PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2006

| | Note | 31 12 2006 | 31 12 2005 |
|---|--------|------------------|------------------|
| | | € 000 | € 000 |
| Profit (loss) for the year | | 50,057 | (115,900) |
| Adjustments to reconcile profit or loss to cash flows from operating activities | | | |
| Depreciation and amortisation of non-current assets | 6, 7 | 64,232 | 62,558 |
| Impairment losses | 8 | 12 | 0 |
| Loss (gain) on disposal of tangible and intangible assets | 21, 24 | (21,407) | 5,367 |
| Loss on disposal of short term investment securities | | 11 | 0 |
| Expenses associated with IPO | 11, 25 | 13,667 | 0 |
| Share based payments | 13 | 270 | 0 |
| (Increase) decrease in inventories | | (5,652) | (645) |
| Increase in trade accounts receivable | | (15,066) | (5,887) |
| Increase in other assets and prepaid expenses | | 21,291 | (32,616) |
| Deferred tax (credit)/expense | 28 | (8,119) | 43,954 |
| Increase (decrease) in accrued liabilities and provisions | | 3,672 | 28,419 |
| Increase in trade accounts payable | | (6,371) | 0 |
| Increase in other current liabilities | | 14,594 | 36,198 |
| Foreign exchange (gains) losses | | (15,267) | 59,685 |
| Interest expense | | 29,135 | 19,026 |
| Interest income | | (7,389) | 0 |
| Income tax expense | 28 | 3,147 | 1,076 |
| Share of (profit) loss of associates | 8, 27 | (608) | (2) |
| Changes in fair value of derivatives | 30 | 11,703 | (16,571) |
| Other non-cash changes | | 104 | 0 |
| Cash generated from operations | | 132,016 | 84,662 |
| Interest paid | | (27,989) | (18,238) |
| Interest received | | 7,198 | 0 |
| Income taxes paid | | (1,619) | (681) |
| Net cash flows from operating activities | | 109,606 | 65,743 |
| Purchases of tangible and intangible assets | | (327,180) | (103,999) |
| Acquisition of subsidiary, net of cash | 5 | (83,510) | 0 |
| Advanced payments for non-current items | | (48,846) | (29,077) |
| Proceeds from sale of tangible and intangible assets | | 45,395 | 29,898 |
| Advanced payments for sale of tangible assets | | 40,000 | 0 |
| Proceeds from sale of short-term investment securities | | 114 | 0 |
| Dividends received from associates | 8 | 500 | 332 |
| Payment received on liquidation of associate | 8 | 61 | 0 |
| Acquisition of investments in associates | 8 | (31) | (6) |
| Cash flow from investing activities | | (373,497) | (102,852) |
| Principal payments on interest-bearing liabilities | | (144,313) | (64,218) |
| Proceeds from long-term borrowings | | 252,213 | 73,389 |
| Purchase of treasury shares | | (45) | 0 |
| Increase in share premium | 11 | 229,850 | 130,000 |
| Increase in subscribed capital | 11 | 4,936 | 0 |
| Transaction costs | 11 | (39,297) | 0 |
| Partners' distributions | | 0 | (563) |
| Cash flow from financing activities | | 303,344 | 138,608 |
| Change in cash and cash equivalents | | 39,453 | 101,499 |
| Cash and cash equivalents at beginning of period | | 189,051 | 87,552 |
| Foreign exchange losses on cash balances | | (410) | 0 |
| Cash and cash equivalents at end of period | 31 | 228,094 | 189,051 |



06) Financial Statements

Air Berlin PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Share
capital
€000 | Share
premium
€000 |
|---|------|--------------------------|--------------------------|
| Balances at 1 January 2005 | | 30 | 0 |
| Net unrealised changes in available-for-sale securities, net of tax | | | |
| Net loss recognised directly in equity | | | |
| Loss for the year | | | |
| Total recognised income and expense for the period | | | |
| Change in limited partners' capital | | | |
| Increase in share capital | | 10,073 | |
| Decrease in share capital | | (30) | |
| Partners' distributions | | | |
| Balances at 31 December 2005 | | 10,073 | 0 |
| Share based payment | 13 | | |
| Hedge reserve, net of tax | 30 | | |
| Net currency translation differences | 11 | | |
| Net unrealised changes in available-for-sale securities, net of tax | 11 | | |
| Net income (loss) recognised directly in equity | | 0 | 0 |
| Profit for the year | | | |
| Total recognised income and expense for the period | | 0 | 0 |
| Purchase of treasury shares | 11 | | |
| Issue of ordinary shares | 11 | 4,936 | 229,850 |
| Transaction cost, net of tax | 11 | | (15,660) |
| Balances at 31 December 2006 | | 15,009 | 214,190 |

| Limited
partners'
capital | Other
capital
reserves | Profit and
loss account | Hedge
Accounting,
net of tax | Currency
translation
differences | Fair value
reserve | Total |
|---------------------------------|------------------------------|----------------------------|------------------------------------|--|-----------------------|-----------|
| € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 |
| 41,300 | 55,551 | 86,932 | 0 | 0 | (114) | 183,699 |
| | | | | | (13) | (13) |
| | | | | | (13) | (13) |
| | | (115,900) | | | | (115,900) |
| | | (115,900) | | | (13) | (115,913) |
| (41,300) | 161,475 | | | | | 120,175 |
| | | | | | | 10,073 |
| | 30 | | | | | 0 |
| | | (811) | | | | (811) |
| 0 | 217,056 | (29,779) | 0 | 0 | (127) | 197,223 |
| | | 270 | | | | 270 |
| | | | (18,930) | | | (18,930) |
| | | | | (22) | | (22) |
| | | | | | 127 | 127 |
| 0 | 0 | 270 | (18,930) | (22) | 127 | (18,555) |
| | | 50,057 | | | | 50,057 |
| 0 | 0 | 50,327 | (18,930) | (22) | 127 | 31,502 |
| | | (45) | | | | (45) |
| | | | | | | 234,786 |
| | | | | | | (15,660) |
| 0 | 217,056 | 20,503 | (18,930) | (22) | 0 | 447,806 |

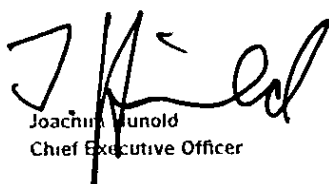


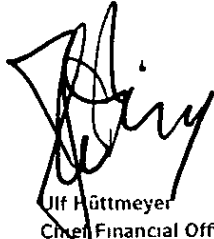
06) Financial Statements

Air Berlin PLC
COMPANY BALANCE SHEET
 as at 31 December 2006

| | Note | 31 12 2006 |
|-------------------------------------|------|----------------|
| | | € 000 |
| Assets | | |
| Non current assets | | |
| Investments in subsidiaries | 35b | 140,165 |
| Deferred tax assets | 35c | 15,888 |
| Non current assets | | 156,053 |
| Current assets | | |
| Receivables from subsidiaries | 35h | 686 |
| Other current assets | 35d | 280 |
| Prepaid expenses | | 310 |
| Cash and cash equivalents | | 65,643 |
| Current assets | | 66,919 |
| Total assets | | 222,972 |
| Equity and liabilities | | |
| Shareholders' equity | | |
| Share capital | 35e | 15,009 |
| Share premium | 35e | 214,190 |
| Profit and loss account | | (9,346) |
| Equity | | 219,853 |
| Current liabilities | | |
| Accrued liabilities | 35f | 125 |
| Payables to subsidiaries | 35h | 452 |
| Trade payables | | 392 |
| Other liabilities | 35g | 2,150 |
| Current liabilities | | 3,119 |
| Total equity and liabilities | | 222,972 |

The financial statements were approved by the Board of Directors and authorised for issue on 26 March 2007 and signed on behalf of the Board


 Joachim Hunold
 Chief Executive Officer


 Jif Hüttmeyer
 Chief Financial Officer

Air Berlin PLC

COMPANY STATEMENT OF CASH FLOWS

for the period ended 31 December 2006 (from 2 December 2005, date of incorporation)

| | Note | 31 12 2006 |
|---|--------|------------------|
| | | € 000 |
| Loss for the period | | (9,571) |
| Adjustments to reconcile profit or loss to cash flows from operating activities | | |
| Expenses associated with IPO | 11, 25 | 13,667 |
| Share based payments | 13 | 270 |
| Increase in receivables from subsidiaries | 35h | (686) |
| Increase in other assets and prepaid expenses | | (590) |
| Deferred tax credit | 35c | (5,918) |
| Increase in accrued liabilities and provisions | | 125 |
| Increase in trade accounts payable | | 392 |
| Increase in payables to subsidiaries | 35h | 452 |
| Increase in other current liabilities | | 2,150 |
| Interest income | | (2,490) |
| Cash generated from operations | | (2,199) |
| Interest received | | 2,490 |
| Net cash flows from operating activities | | 291 |
| Acquisition of investments in subsidiaries | 35b | (140,165) |
| Cash flow from investing activities | | (140,165) |
| Purchase of treasury shares | | (45) |
| Issue of Class A-shares in December 2005 | | 73 |
| Increase in share capital December 2005 | | 10,000 |
| Increase in share premium—IPO | 11 | 229,850 |
| Increase in subscribed capital—IPO | 11 | 4,936 |
| Transaction costs—IPO | 11 | (39,297) |
| Cash flow from financing activities | | 205,517 |
| Change in cash and cash equivalents | | 65,643 |
| Cash and cash equivalents at beginning of period | | 0 |
| Cash and cash equivalents at end of period | | 65,643 |

Air Berlin PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital | Share premium | Profit and loss account | Total |
|--|------|---------------|----------------|-------------------------|----------------|
| | | € 000 | € 000 | € 000 | € 000 |
| Balances at date of incorporation (2 December 2005) | | 0 | 0 | 0 | 0 |
| Share based payment | 13 | | | 270 | 270 |
| Net income recognised directly in equity | | 0 | 0 | 270 | 270 |
| Loss for the period | | | | (9,571) | (9,571) |
| Total recognised income and expense for the period | | 0 | 0 | (9,301) | (9,301) |
| Issue of Class A-shares in December 2005 | | 73 | | | 73 |
| Increase in share capital December 2005 | | 10,000 | | | 10,000 |
| Purchase of treasury shares | 11 | | | (45) | (45) |
| Issue of ordinary shares | 11 | 4,936 | 229,850 | | 234,786 |
| Transaction cost, net of tax | 11 | | (15,660) | | (15,660) |
| Balances at 31 December 2006 | | 15,009 | 214,190 | (9,346) | 219,853 |



NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2006

1 INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2006 comprise Air Berlin PLC and its subsidiaries (together referred to as "Air Berlin" or the "Group") and the Group's interest in associates. Air Berlin is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of Air Berlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

2 BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

The consolidated and Company financial statements as of 31 December 2006 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU. In accordance with Section 230 of the Companies Act 1985 the Company has chosen not to present its individual profit and loss account. The Company financial statements are presented on pages 92 to 93. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale.

The consolidated financial statements have been prepared in Euro. The European Central Bank year end exchange rate was GBP 0.6715 to the Euro. All financial information presented in Euro has been rounded to the nearest thousand, except for share data. The financial statements were authorised and approved for issue by the board of directors on 26 March 2007.

Use of estimates

The preparation of financial statements in conformity with IFRS 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 that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate primarily to the valuation of fixed assets and are discussed in note 4 a), 4 b) and 4 j) below.

3 BASIS OF CONSOLIDATION

a) Reverse acquisition

In 2005, the Group reorganised its legal structure. Thereby each shareholder transferred its respective holding in Air Berlin Beteiligungsgesellschaft mbH and Air Berlin GmbH & Co Luftverkehrs KG to several German limited liability companies (Pegasus GmbHs) owned by the existing shareholders in consideration for the issue of an additional share in the Pegasus GmbHs. Based on contribution and transfer agreements between Air Berlin PLC and the existing shareholders, the shareholders then contributed their shares in the Pegasus GmbHs to Air Berlin PLC in consideration for the issuance of 10 million ordinary shares by Air Berlin PLC. Each shareholder received shares in proportion to the former interests in Air Berlin GmbH & Co Luftverkehrs KG. Further, the position of general partner of Air Berlin GmbH & Co Luftverkehrs KG from Air Berlin Beteiligungsgesellschaft mbH was transferred to Air Berlin PLC, as all other partners are Group companies, there is no minority interest.

In accordance with IFRS 3, Business Combinations, the legal reorganisation was accounted for as a reverse acquisition. The consolidated financial statements are issued under the name of the legal parent (Air Berlin PLC) but are a continuation of the consolidated financial statements of the legal subsidiary Air Berlin GmbH & Co Luftverkehrs KG and subsidiaries (renamed to Air Berlin PLC & Co Luftverkehrs KG), the acquirer for accounting purposes.

The assets and liabilities of the Group are recognised and measured in the consolidated financial statements at their

pre-combination carrying amounts. The equity structure in the consolidated financial statements, however, reflects the equity structure of Air Berlin PLC including the equity instrument issued by the legal parent to effect the combination. Due to the reverse acquisition in 2005, the limited partners' capital was reclassified to other capital reserves.

b) Subsidiaries

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

The subsidiaries listed in note 36 are included in the consolidated financial statements.

Several of the Company's subsidiaries prepare their financial statements in a currency other than Euro (Swiss francs). The assets and liabilities of these subsidiaries are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Euro at exchange rates at the dates of the transactions. Foreign currency differences resulting are recognised directly in equity and are shown under Currency translation differences.

Due to the inclusion in the consolidated financial statements of Air Berlin PLC, all of the fully-consolidated German subsidiaries (identified in the table in note 36 with "Germany" as country of incorporation) except for dba Luftfahrtgesellschaft mbH are exempt from presenting financial statements under German statutory law (§ 264 paragraph 3 or § 264 b HGB).

c) Special purpose entity

In 2006 the Group established a special purpose entity (SPE) in connection with the repurchase and administration of shares relating to its Employee Share Plan. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs are considered to be controlled by the Group if they were established under terms

that impose strict limitations on the decision-making powers of the SPE's management and that result in the Group receiving all of the benefits related to the SPE's operations and net assets.

d) Associates

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

e) Transactions eliminated on consolidation

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

4 SIGNIFICANT ACCOUNTING POLICIES

a) Intangible assets

Goodwill is recognised where the cost of a business combination exceeds the fair values attributed to the net assets acquired. Other identifiable intangible assets acquired through a business combination are capitalised at fair value. 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).



06) Financial Statements

The estimated useful lives of intangible assets are as follows

| | |
|------------------------|------------|
| Software licenses | 3 years |
| Other rights | 15 years |
| Trademark dba | 5 years |
| Landing rights (Slots) | indefinite |
| Goodwill | indefinite |

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

b) Tangible assets

Tangible assets are valued at acquisition or production costs less depreciation charges. Depreciation is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives

-- AIRCRAFT AND ENGINES

The Group owns aircraft and engines of the type Boeing 737-400 (sold in the fourth quarter of 2006), 737-800, and Airbus A 320. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at each balance sheet date. Since the residual values are denominated in USD and need to be translated into Euro, the carrying amount as of 31 December 2006 and 2005 was adjusted accordingly. The changes in residual values and their impact on annual depreciation charges have been accounted for in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, prospectively in the period of change and future periods affected. In 2006 the change in estimate of the residual values led to an increase in depreciation charges of € 773 (2005: increase of € 11,588), resulting in corresponding changes in the carrying amounts. The effect on future earnings of changes in the estimate of the residual values of aircraft cannot be predicted, as changes in the USD exchange rate will result in new estimates of residual value in future periods. Were the USD exchange rate to remain stable at the year-end rate, we would expect an increase in depreciation expense in the future of approximately € 3,092 per year. A portion of the cost of an aircraft is attributed on acquisition to major inspection and overhaul costs of its engines and

airframe and is depreciated separately over a period of five to seven years, at which time the new overhaul is capitalised and depreciated over its useful life.

Borrowing costs that are directly attributable to the acquisition of aircrafts and engines are capitalised as part of the costs of those qualifying assets. Other borrowing costs are expensed as incurred.

- SPARE ENGINES

The residual values of spare engines were reassessed by the Group in 2006. The effect of this change in estimate was accounted for prospectively in the period of change in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors and resulted in a decrease in depreciation charges of € 578 in the fourth quarter of 2006. This will result in a decrease in depreciation expense in the future of approximately € 2,312 per year.

- OTHER TANGIBLE ASSETS

The estimated useful lives of other tangible assets are as follows

| | |
|-----------------------------------|--------------------------------|
| Technical equipment and machinery | 15 years
(in 2005: 8 years) |
| Office equipment | 3—13 years |

The Group has changed its estimate of useful life in depreciating its technical equipment. The effect of this change in estimate was accounted for prospectively in the period of change in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors and resulted in a decrease in depreciation charges of € 707 in the fourth quarter of 2006. This will result in a decrease in depreciation expense in the future of approximately € 2,828 per year.

- IMPAIRMENT

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recorded in the income statement.

The recoverable amount is the greater of the assets' fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Since all aircraft are used for all destinations of Air Berlin, the total Group fleet is considered as a single cash generating unit. 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.

c) Subsequent expenditure

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

d) Investments in equity securities

Investments are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly as a separate component of equity. All gains or losses recognised in equity are taken to the profit or loss upon de-recognition of the investment.

e) Inventories

Inventories are measured at the lower of cost or net realisable value. Inventories include supplies and spares, raw materials and purchased merchandise. The cost of inventories is based on the weighted average cost formula. There are no material differences between the net realisable value and the carrying amounts.

f) Accounts receivable

Trade and other accounts receivable are initially recognised at fair value and subsequently stated at cost less bad and doubtful debt provisions, which approximates their fair value. Receivables for which collection is doubtful are written down to their realisable value. In addition to specific provisions, recognisable risks arising from general credit risk are accounted for by a general bad debt provision, which is calculated based on prior experience.

Accounts receivable denominated in foreign currencies are translated at the closing rate as at the balance sheet date.

g) Derivatives

Derivative financial instruments are used exclusively for hedging fuel price, interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to secure future cash flows. Derivative financial instruments are recognised initially at fair value. All derivatives that do not qualify for hedge accounting are classified as held for trading. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the income statement as profit or loss unless the derivative has been classified as a hedge of a highly probable future cash flow. The effective portion of gains and losses from changes in the fair value of derivatives designated as cash flow hedges are taken to equity in accordance with IAS 39 and are recognised in the profit and loss when the related transaction impacts income or the future cash flow ceases to be considered probable. The ineffective portion of a cash flow hedge is recognised immediately in income.

Forward exchange transactions are used to mitigate exchange rate exposure. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Different hedging instruments are used to limit the fuel price risk. Air Berlin uses combined interest rate and currency swaps to convert variable rate liabilities in foreign currency to fixed rate positions in the functional currency.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an initial maturity of less than three months.



06) Financial Statements

i) Share capital

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

- ORDINARY SHARES

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

- REDEEMABLE "CLASS A" PREFERENCE SHARES

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

- TREASURY SHARES

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

j) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with IAS 12 on the basis of temporary differences between the tax base at the level of the individual company and the respective IFRS book value. A deferred tax asset is recognised for tax loss carryforwards to the extent that it is probable that taxable income will be available in the near future against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

k) Provisions

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

l) Interest-bearing liabilities

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost.

m) Trade and other payables

Trade and other payables are initially recognised at their fair value and subsequently stated at their amortised cost, which approximates their fair value. Liabilities in foreign currencies are translated at the closing rate as at the balance sheet date.

n) Foreign currency

Transactions in foreign currencies are translated into Euro at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated into Euro at the exchange rate at the balance sheet date. Any differences resulting from the currency translation are recognised in the income statement. Exchange differences arising from interest-bearing liabilities and other financing activities 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 and other operating income are recognised when the corresponding service has been performed (for example transportation) or when the risks and rewards associated with the right of ownership are transferred to the buyer (for example duty-free sales). Revenue is measured at the fair value of the consideration received taking into account the

amount of any sales deductions. Expenses are recognised in the period in which they are incurred, which generally corresponds to the time at which the income is recognised (matching principle)

p) Deferred income

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

-- FREQUENT FLYER PLAN

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

q) Leasing

The Group leases a number of aircraft under operating leases which require Air Berlin to maintain the leased assets. Repair and overhaul costs are not included in the lease rentals. Air Berlin's policy is to expense the maintenance cost over the period of the lease.

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

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

measured at the lower of their fair value or the present value of the minimum lease payments.

r) Pensions

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

s) Share-based payment transactions

The fair value of options granted to employees is estimated on the grant date and recognised in profit and loss as personnel expense over the vesting period (i.e. the period in which the employees become unconditionally entitled to the options). The corresponding entry is an increase in equity. The fair value was determined using valuation techniques which comply with IFRS 2. The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Further details to vesting conditions are found in note 13.

t) New pronouncements

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

- ✈ IFRS 7, Financial instruments, effective for financial years beginning on or after 1 January 2007
- ✈ IFRS 8, Operating Segments, effective for financial years beginning on or after 1 January 2009
- ✈ IFRIC 7, Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies, effective for financial years beginning on or after 1 March 2006
- ✈ IFRIC 8, Scope of IFRS 2, effective for financial years beginning on or after 1 May 2006
- ✈ IFRIC 9, Reassessment of Embedded Derivatives, effective for financial years beginning on or after 1 June 2006
- ✈ IFRIC 10, Interim Financial Reporting and Impairment, effective for financial years beginning on or after 1 November 2006
- ✈ Various amendments to disclosure requirements under IAS 39 and IAS 1



06) Financial Statements

5 ACQUISITIONS

dba

As of 31 August 2006 (acquisition date) Air Berlin PLC acquired 100 percent of the shares of dba Luftfahrtgesellschaft GmbH, Munchen (in following "dba") for a purchase price of € 130,000

Transaction costs incurred in connection with the acquisition amount to € 1,385. The goodwill results from a variety of factors, including synergies between the route networks, corporate contracts and attractive offers for business passengers

The assets and liabilities arising from acquisitions in 2006 are as follows

| In thousands of Euro | fair value at
acquisition date | revaluation
to purchase
accounting | acquiree's
carrying
amount |
|--------------------------------------|-----------------------------------|--|----------------------------------|
| Non-current assets | 7,410 | | 7,410 |
| Landing rights | 69,949 | 69,949 | 0 |
| Trademark dba | 2,017 | 2,017 | 0 |
| Inventories | 3,061 | | 3,061 |
| Accounts receivable | 7,950 | | 7,950 |
| Other assets and prepaid expenses | 29,852 | | 29,852 |
| Cash and cash equivalents | 47,869 | | 47,869 |
| Deferred tax assets | 27,718 | 27,718 | 0 |
| Accrued liabilities | (49,765) | | (49,765) |
| Accounts payable | (12,913) | | (12,913) |
| Other current liabilities | (22,080) | | (22,080) |
| Net identifiable assets acquired | 111,068 | 99,684 | 11,384 |
| Goodwill | 20,317 | | |
| Total cash flow from acquisition | 131,385 | | |
| Less | | | |
| Cash and cash equivalents | (47,869) | | |
| Total net cash flow from acquisition | 83,516 | | |

Pre-acquisition carrying amounts were determined based on financial statements prepared according to applicable IFRS immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. No contingent liabilities were identified at the acquisition date.

Goodwill is not amortised but instead is assessed annually for impairment in accordance with IFRS 3. The transaction costs were included in the calculation of goodwill.

The results of dba as from 1 September 2006 are included in the consolidated financial statements (revenue € 163,458, profit for the period € 17,558). The group would have had revenue of € 1,888,225 and profit for the period of € 35,869 had dba been consolidated from the beginning of the reporting period.

Other

In addition the Group acquired the remaining 76% of TIS Total Inflight Solution Germany GmbH in 2006, which was renamed to AB Neunte Flugzeugvermietungs GmbH and consolidated in the financial statements at 31 December 2006. The Group paid € 19 and received cash of € 25, so the net cash flow from the acquisition was positive € 6, which is equal to the book value of the investment in associates at 31 December 2005.

6 INTANGIBLE ASSETS

| In thousands of Euro | Software
licences | Goodwill | Landing
rights | Trademarks | Other rights | Total |
|--------------------------------------|----------------------|----------|-------------------|------------|--------------|---------|
| Acquisition cost | | | | | | |
| Balance at 1 January 2005 | 6,041 | 0 | 0 | 0 | 869 | 6,910 |
| Additions | 1,648 | 0 | 0 | 0 | 0 | 1,648 |
| Disposals | (146) | 0 | 0 | 0 | 0 | (146) |
| Balance at 31 December 2005 | 7,543 | 0 | 0 | 0 | 869 | 8,412 |
| Additions | 3,645 | 0 | 0 | 0 | 0 | 3,645 |
| Additions through acquisition of dba | 362 | 20,317 | 69,949 | 2,017 | 0 | 92,645 |
| Disposals | (87) | 0 | 0 | 0 | 0 | (87) |
| Balance at 31 December 2006 | 11,463 | 20,317 | 69,949 | 2,017 | 869 | 104,615 |
| Depreciation | | | | | | |
| Balance at 1 January 2005 | 4,699 | 0 | 0 | 0 | 768 | 5,467 |
| Depreciation charge for the year | 1,708 | 0 | 0 | 0 | 58 | 1,766 |
| Disposals | (138) | 0 | 0 | 0 | 0 | (138) |
| Balance at 31 December 2005 | 6,269 | 0 | 0 | 0 | 826 | 7,095 |
| Depreciation charge for the year | 1,639 | 0 | 0 | 134 | 43 | 1,816 |
| Disposals | (87) | 0 | 0 | 0 | 0 | (87) |
| Balance at 31 December 2006 | 7,821 | 0 | 0 | 134 | 869 | 8,824 |
| Carrying amount | | | | | | |
| At 1 January 2005 | 1,342 | 0 | 0 | 0 | 101 | 1,443 |
| At 31 December 2005 | 1,274 | 0 | 0 | 0 | 43 | 1,317 |
| At 31 December 2006 | 3,642 | 20,317 | 69,949 | 1,883 | 0 | 95,791 |

Landing rights and trademarks are valued at their value in use as of the acquisition date. The valuation of landing rights has been determined on a value in use basis and is based on the average earnings of the market participants on regulated airports under consideration of a scarcity factor. Significant assumptions used in the calculation of value in use were a discount rate of 8.11% and cash flow projections for a thirty year period for each route with an individual landing right, which approximates an indefinite useful life.

The valuation of the trademark is based on a licence price analogy (relief from royalty). The estimated trademark-related sales revenues over a useful life of 5 years form the basis for the calculation, discounted at a rate of 7.92%.

The Group carried out an impairment test on both landing rights and goodwill in the fourth quarter of 2006 based on a variety of assumptions and concluded that no impairment was required. The recoverable amount was determined for the cash generating unit to which the landing rights and goodwill belong, which in this case is the Air Berlin Group as a whole. The future cash flows were estimated using the value-in-use perspective based on mid-term cash flow planning (5 years) for the existing fleet and discounted to their present value using the company-specific weighted average cost of capital of 8.57%. The calculation of value in use is most sensitive to the assumptions of discount rate and operating margin. The operating margins used in determining value in use are based on planned business and operational growth. The trading



06) Financial Statements

environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. However, foreseeable events are unlikely to result in a change in projections which is signifi-

cant enough to result in the carrying amounts exceeding the recoverable amount. The discount rate reflects management's estimate of the long-term cost of capital for the cash generating unit.

7 TANGIBLE ASSETS

| In thousands of Euro | Aircraft and engines | Technical equipment and machinery | Office equipment | Total |
|--------------------------------------|----------------------|-----------------------------------|------------------|-----------|
| Acquisition cost | | | | |
| Balance at 1 January 2005 | 920,646 | 42,707 | 22,126 | 985,479 |
| Additions | 89,265 | 13,177 | 9,132 | 111,574 |
| Disposals | (50,851) | (365) | (3,593) | (54,809) |
| Balance at 31 December 2005 | 959,060 | 55,519 | 27,665 | 1,042,244 |
| Additions | 293,384 | 37,105 | 6,250 | 336,739 |
| Additions through acquisition of dba | 0 | 6,014 | 1,034 | 7,048 |
| Disposals | (147,090) | (47,176) | (660) | (194,926) |
| Balance at 31 December 2006 | 1,105,354 | 51,462 | 34,289 | 1,191,105 |
| Depreciation | | | | |
| Balance at 1 January 2005 | 214,234 | 20,069 | 13,942 | 248,245 |
| Depreciation charge for the year | 51,048 | 5,372 | 4,372 | 60,792 |
| Disposals | (18,355) | (241) | (955) | (19,551) |
| Balance at 31 December 2005 | 246,927 | 25,200 | 17,359 | 289,486 |
| Depreciation charge for the year | 52,744 | 5,095 | 4,577 | 62,416 |
| Disposals | (73,893) | (23,153) | (645) | (97,691) |
| Balance at 31 December 2006 | 225,778 | 7,142 | 21,291 | 254,211 |
| Carrying amount | | | | |
| At 1 January 2005 | 706,412 | 22,638 | 8,184 | 737,234 |
| At 31 December 2005 | 712,133 | 30,319 | 10,306 | 752,758 |
| At 31 December 2006 | 879,576 | 44,320 | 12,998 | 936,894 |

The significant change in the USD exchange rate triggered an impairment test on fixed assets, since it could have an adverse effect on the fair value of the aircraft and engines, which is determined based on the market prices in USD. The Group carried out an impairment test based on a variety of assumptions and concluded that no impairment was required. The recoverable amount was determined for the cash generating unit to which the aircraft and engines belong, which in this case is the Air Berlin Group as a whole. The future cash flows were estimated using the value-in-use perspective based on mid-term cash flow planning (5 years) for the existing fleet and discounted to their present value using the company-specific weighted average cost of capital of 8.57%. The calculation of value in use is most sensitive to the assumptions of discount rate and operating margin. The operating margins used in determining value in use 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. However, foreseeable events are unlikely to result in a change in projections which is significant enough to result in the carrying amounts exceeding the recoverable amount. The discount rate reflects management's estimate of the long-term return on capital employed for the cash generating unit. Borrowing costs capitalised during 2006 and 2005 are € 2,393 and € 3,150, respectively, at borrowing rates between 2.46% and 5.52%.

Aircraft and engines are pledged as security in connection with the Group's interest-bearing liabilities and liabilities due to banks from assignment of future lease payments. Tangible assets include Technical equipment and machinery which has been capitalised as a result of a finance lease. The book value of this equipment was € 5,810 at 31 December 2006. Finance leases are explained in more detail in Note 17.

8 INVESTMENTS IN ASSOCIATES

| In thousands of Euro | Investments |
|--|-------------|
| Acquisition cost | |
| Balance at 1 January 2005 | 984 |
| Additions | 6 |
| Dividends received | (369) |
| Share of profits | 39 |
| Balance at 31 December 2005 | 660 |
| Additions | 31 |
| Dividends received | (500) |
| Share of profits | 608 |
| Payment received on liquidation | (61) |
| Transfers due to consolidation in 2006 | (6) |
| Impairment losses | (12) |
| Balance at 31 December 2006 | 720 |

The Group has the following investments in associates

| | Country | Ownership | |
|--|-------------|-----------|------|
| | | 2006 | 2005 |
| | | % | % |
| Niki Luftfahrt GmbH,
Vienna | Austria | 24.0 | 24.0 |
| TIS Total Inflight Solution
Germany GmbH | Germany | — | 24.0 |
| SCK DUS GmbH & Co. KG,
Düsseldorf * | Germany | 24.8 | 24.0 |
| Helvetia Express Flug AG,
Kloten | Switzerland | — | 45.0 |
| IBERO Tours GmbH ** | Germany | 50.0 | 50.0 |
| Lee & Lex Flugzeugvermietung
GmbH, Vienna | Austria | 24.0 | — |

* Formerly Stockholm Air Catering GmbH & Co. KG, then TIS Germany Air Catering GmbH & Co. KG and finally SCK DUS GmbH & Co. KG Düsseldorf
 ** Accounted for as an associate due to lack of control



06) Financial Statements

In 2006 the Group acquired the remaining 76% ownership in TIS Total Inflight Solution Germany GmbH, which was later renamed to AB Neunte Flugzeugvermietungs GmbH and is consolidated in the 2006 financial statements. No gains or losses were incurred on these transactions. Stockholm Air Catering GmbH & Co. KG, Dusseldorf was renamed to TIS Germany Airline Catering GmbH & Co. KG on 31 March 2006, at which time the company changed its financial year end to 31 March and issued audited financial statements for the period 1 January to 31 March 2006. In the fourth quarter of 2006 Air Berlin acquired the remaining 76.0% ownership in TIS Germany Airline Catering GmbH & Co. KG and resold 75.2% thereof to the SCK-Group, thereby

increasing its ownership to 24.8%. The company subsequently changed its name to SCK DUS GmbH & Co. KG, Dusseldorf. Helvetia Express Flug AG, Kloten was liquidated in 2006. As a result the Group received a payment of CHF 97 (€ 61) upon liquidation and incurred additional impairment losses of € 12. The Group's share of post-acquisition total recognised profit or loss in the above associates for the years ending 31 December 2006 and 2005 is € 608 and € 39, respectively. The Group has not recognised losses relating to Niki Luftfahrt GmbH totalling € 435 in prior periods, as the Group has no obligation in respect of these losses. Consequently the Group has not recognised subsequent gains of € 17 in 2005, as these do not yet compensate for the cumulative losses.

Summary financial information on associates—100 per cent

| In thousands of Euro | Assets | Liabilities | Equity | Revenues | Profit/(loss) |
|--|--------|-------------|--------|----------|---------------|
| 2006 | | | | | |
| Niki Luftfahrt GmbH, Vienna | * | * | * | * | * |
| SCK DUS GmbH & Co. KG, Dusseldorf** | 5,513 | 5,462 | 51 | 17,215 | 1,165 |
| IBERO Tours GmbH | * | * | * | * | * |
| Lee & Lex Flugzeugvermietung GmbH*** | 60 | 10 | 50 | 0 | 0 |
| 2005 | | | | | |
| Niki Luftfahrt GmbH, Vienna | 51,793 | 52,534 | (741) | 113,789 | 70 |
| TIS Total Inflight Solution Germany GmbH, Berlin | 25 | 0 | 25 | 0 | 0 |
| Stockholm Air Catering GmbH & Co. KG, Dusseldorf | 3,325 | 3,274 | 51 | 23,049 | 1,190 |
| Helvetia Express Flug AG, Kloten**** (preliminary) | 183 | 26 | 157 | 134 | (280) |
| IBERO Tours GmbH | 1,869 | 1,111 | 758 | 3,070 | 86 |

* Figure is not yet available therefore the 2005 figures were in determining at equity amounts

** Figure as of 30 September 2006 (audited six month interim financial statements of TIS Germany Airline Catering GmbH & Co. KG plus the revenues and profit/loss from the audited financial statements for the financial period 1 January to 31 March 2006)

*** Figure as of 15 March 2006 (opening balance sheet)

**** The amounts for Helvetia Express Flug AG Kloten are determined using the exchange rate on the balance sheet date (1 5551 CHF/EUR on 31 12 2005)

9 INVENTORIES

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

| In thousands of Euro | 2006 | 2005 |
|-----------------------|---------------|--------------|
| Raw materials | 47 | 52 |
| Supplies and spares | 10,977 | 2,172 |
| Purchased merchandise | 890 | 977 |
| | 11,914 | 3,201 |

No allowance for obsolete items is required on inventories. The amount of inventories expensed in the income statement for 2006 and 2005 are € 57,416 and € 59,071, respectively.

10 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

| In thousands of Euro | 2006 | 2005 |
|---|----------------|----------------|
| Trade receivables | 49,724 | 26,708 |
| Receivables from closed foreign exchange contracts | – | 23,477 |
| Positive market values of derivatives | 4,216 | 1,708 |
| Receivables from tax authorities | 9,331 | 7,444 |
| Receivables from related parties | 8,782 | 5,154 |
| Advanced payments on aircraft and other tangible assets | 20,260 | 26,697 |
| Accrued revenue | 8,514 | 0 |
| Receivables from sale of fixed assets | 39,710 | 0 |
| Other assets | 30,879 | 15,408 |
| | 171,416 | 106,596 |

Receivables from related parties include a loan receivable in the amount of USD 960 (€ 779) and a partial debenture of € 750 (30 debentures at € 25 each) from Lee & Lex Flugzeugvermietungs GmbH (in total € 1,529). The loan has a yearly interest rate of 5% and the debentures have a yearly interest rate of 6%.

Other assets mainly include security deposits (2006 € 5,341 and 2005 € 818), receivables for bonus and claims (2006 € 7,759 and 2005 € 500), receivables from insurance carriers (2006 € 1,330 and 2005 € 1,175) and suppliers with debit balances (2006 € 5,224 and 2005 € 3,321).

Trade receivables in the balance sheet are shown net of a bad and doubtful debt provision of € 1,555 (2005 € 1,400). In addition to the € 155 increase in the bad and doubtful debt provision (€ 220 in 2005), receivables of € 2,340 in 2006 (€ 1,018 in 2005) were written off directly in the profit or loss during the period.

11 SHARE CAPITAL AND RESERVES

Share capital and share premium

On 27 April 2006, ordinary shares were increased by 44,400 shares of € 1.00 each due to the issue of shares pursuant to the "2006 Employee Share Plan". Further, a subsequent 4:1 stock split of each authorised ordinary share was adopted. During the course of a public offering on 11 May 2006, 19,565,217 ordinary shares of € 0.25 each were issued at a total share premium of € 214,190 net of transaction costs. Additional transaction costs of € 13,667 relating to the listing of existing shares are recognised in the income statement under financial expenses.

As of 31 December 2006, the authorised share capital of Air Berlin was € 100,000,000 and £ 50,000 (2005 € 100,000,000 and £ 50,000), divided into 400,000,000 ordinary shares of € 0.25 each and 50,000 A Shares of £ 1.00 each (2005 100,000,000 ordinary shares of € 1.00 each and 50,000 A Shares of £ 1.00 each). Of Air Berlin's authorised share capital, 59,742,821 ordinary shares of € 0.25 each and 50,000 A Shares of £ 1.00 each were issued and fully paid up as of 31 December 2006. Included in this amount are 177,600 treasury shares held by Air Berlin (through the Air Berlin Employee Share Trust) in connection with the employee share plan described below. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

The A Shares are redeemable at the option of Air Berlin only, and the holders of A Shares shall not be entitled to any participation in the profits or assets of Air Berlin save on a distribution of assets of Air Berlin among its members on a winding up or other return of capital (other than a redemption or purchase by Air Berlin of its own shares), in which case the holders of A Shares shall be entitled, in priority of to any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A Share.



06) Financial Statements

Movements in share capital are summarised below

| In thousands of shares | Ordinary shares | | Redeemable "Class A" preference shares | |
|---|-----------------|--------|--|------|
| | 2006 | 2005 | 2006 | 2005 |
| On issue at 1 January | 10,000 | 10,000 | 50 | 50 |
| Issued in connection with Employee Share Plan | 44 | 0 | 0 | 0 |
| Total on issue before stock split | 10,044 | 10,000 | 0 | 0 |
| Total on issue after 4:1 stock split | 40,178 | 0 | 0 | 0 |
| Issued for cash (IPO) | 19,565 | 0 | 0 | 0 |
| On issue at 31 December | 59,743 | 10,000 | 50 | 50 |
| Thereof held as treasury shares | 178 | 0 | 0 | 0 |

No shares have been reserved for issue under options

Other capital reserves

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

Treasury shares

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

Hedge accounting

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.

Currency translation differences

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

Fair value reserve

The fair value reserve included the cumulative net change in the fair value of available-for-sale investments until the investment was derecognised in 2006.

Dividends

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

12 EARNINGS PER SHARE (EPS)

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

| In thousands of Euro and thousands of shares, except EPS | 2006 | 2005 |
|--|--------|-----------|
| Profit or loss for the year | 50,057 | (115,900) |
| Dividends declared on redeemable "Class A" preference shares | 0 | 0 |
| Profit/loss attributable to ordinary shareholders (basic and diluted) | 50,057 | (115,900) |
| Issued ordinary shares at 1 January (adjusted for 4:1 stock split) | 40,000 | 40,000 |
| Effect of shares issued in April 2006 in connection with Employee Share Plan | 121 | 0 |
| Effect of shares issued in May 2006 | 12,597 | 0 |
| Effect of treasury shares held | (121) | 0 |
| Weighted average number of ordinary shares outstanding (basic) | 52,597 | 40,000 |
| Basic earnings per share (in €) | 0.95 | (2.90) |
| Weighted average number of ordinary shares outstanding (basic) | 52,597 | 40,000 |
| Effect of share options on issue, as of April 2006 | 119 | 0 |
| Weighted average number of ordinary shares outstanding (diluted) | 52,716 | 40,000 |
| Diluted earnings per share (in €) | 0.95 | (2.90) |

In calculating the earnings per share, the weighted average number of ordinary shares outstanding in 2005 was adjusted to account for the effects of the 4:1 stock split. This reduced the earnings per share for that period to one quarter of the amount previously reported in the consolidated financial statements as of 31 December 2005.

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

In the calculation of diluted earnings per share, the effect of the potential exercise of stock options in connection with the Employee Share Plan is considered as of the date the share-based compensation plan was implemented in April 2006.

13 EMPLOYEE SHARE PLAN

The Company introduced a share-based payment scheme in April 2006, which was later amended in November 2006, as part of the remuneration package provided to the Executive Directors and certain senior executives of the Group. In April 2006 the Company invited Executive Directors and certain senior executives of the Group (each a "Participant")

to subscribe for shares in a one-off award (the "Award"). Participants paid the nominal value for their shares. The Award was made subject to the conditions set out in an agreement entered into between the Company and each Participant. Participants became owner of the shares when they subscribed for them but were unable to sell or otherwise dispose of the shares other than in accordance with the agreement. On the occurrence of certain events, the Company (or a person nominated by it) had the right to acquire all or some of the shares under the Award.

The plan was amended on 28 November 2006. In connection with the amendment, the Company reacquired the beneficial interest in all of the shares under the Award and placed restrictions on the legal interest in the shares (i.e. voting rights). The beneficial interest in the shares was transferred to Ogier Employee Benefit Trustee Limited as trustee of the Air Berlin Employee Share Trust.

Under the terms of the revised Employee Share Plan 2006 the Participant holds (limited) legal title to the shares but will only be able to acquire the beneficial interest to the shares if certain performance conditions are met. If the conditions are not met, or if the Participant does not transfer payment for the shares within two weeks upon notification by the Company,



06) Financial Statements

the Company may require the Participant to transfer legal title to the shares to the Company. As a result of the amendment, the Participants are no longer entitled to receive dividends during the performance period. In addition, restrictions have been placed on the Participant's legal interest in the shares. All other relevant conditions, including the performance criteria described below, remain the same.

The shares are divided equally in three Tranches, each comprising one-third of the shares granted. 50% of the shares granted under each of the Tranches are subject to a performance condition based on return on equity achieved by the Company and 50% of the shares granted under each of the Tranches are subject to performance conditions based on the percentage increase in the Company's Share price over a three-year period as follows:

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

Both performance conditions will be measured in respect of the First, Second and Third Tranches over the performance periods of three consecutive financial years ending on 31 December 2008, 2009 and 2010 respectively.

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

The equity-settled share-based payment transactions are measured at fair value on the grant date in accordance with IFRS 2.

The fair value of the options granted was determined using the binomial model under the following assumptions:

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

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

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

| Share options | Number of share options 2006 | Weighted average exercise price 2006 | Number of share options 2005 | Weighted average exercise price 2005 |
|--|------------------------------|--------------------------------------|------------------------------|--------------------------------------|
| Outstanding at the beginning of the period | 0 | - | 0 | - |
| Granted during the period | 177,600 | 0.25 | 0 | - |
| Forfeited during the period | 0 | 0.25 | 0 | - |
| Exercised during the period | 0 | 0.25 | 0 | - |
| Expired during the period | 0 | 0.25 | 0 | - |
| Outstanding at the end of the period | 177,600 | 0.25 | 0 | - |
| Exercisable at the end of the period | 0 | 0.25 | 0 | - |

No options were exercised or lapsed during the period
Total expense in the profit or loss relating to the Employee
Share Plan was € 270 in 2006

14 PENSION LIABILITIES

Through the acquisition of dba in 2006, the Group acquired a defined contribution pension plan covering all employees of dba, to which the Group makes contributions. The net pension

expense recorded in the profit and loss in 2006 as a result of the defined contribution plan is € 355

As employees in Germany are covered by and required to contribute to the German social security system, Air Berlin does not have any other employee benefit plans at the balance sheet date. The Group paid contributions into the German social security system of € 4,476 in 2006 (€ 3,027 in 2005)

15 PROVISIONS

| In thousands of Euro | At 1 1 2006 | Utilisation | Additions | Reversal | Balance at
31 12 2006 |
|----------------------------|-------------|-------------|-----------|----------|--------------------------|
| Repair of damaged aircraft | 1,048 | 1,048 | 7 | 0 | 7 |
| | 1,048 | 1,048 | 7 | 0 | 7 |

The provision relates to the expected cost of repair of aircraft which have been damaged not in the ordinary course of use and have not been repaired as of the balance sheet date. The estimated amount is based on Air Berlin's historical experience and is recognised at the time the aircraft is damaged

16 INTEREST-BEARING LIABILITIES AND LIABILITIES

DUE TO BANKS FROM ASSIGNMENT OF FUTURE LEASE PAYMENTS

The Group entered into various interest-bearing loans due to banks. The borrowing rates for the years 2006 and 2005 are as follows

| In thousands of Euro | Maturity date | Carrying
amount
31 12 2006 | Carrying
amount
31 12 2005 |
|--|---------------|----------------------------------|----------------------------------|
| Interest rate | | | |
| EURIBOR plus 1.5% spread, repayable upon delivery of the respective aircraft | 2007 | 5,903 | 18,736 |
| Fixed rate at 5.82%, due June 2008 | 2008 | 4,010 | 4,078 |
| 1 month LIBOR plus 3% spread, principal payable in monthly instalments | 2009 | 1,983 | 3,044 |
| 1 month LIBOR plus 2% spread, principal payable in monthly instalments | 2011 | 5,833 | 8,160 |
| 1 month LIBOR plus 2% spread, principal payable in semi-annual instalments | 2012 | 4,953 | 6,402 |
| 1 month LIBOR plus 2% spread, principal payable in semi-annual instalments | 2012 | 5,076 | 6,241 |
| 1 month LIBOR plus 2% spread, principal payable in semi-annual instalments | 2013 | 5,382 | - |
| Bank overdraft | | 87,827 | 970 |
| | | 120,967 | 47,631 |



06) Financial Statements

Of this amount € 97,997 (2005 € 17,477) is classified within current liabilities in the balance sheet. Bank loans are collateralised by engines and aircraft in the amount of € 23,012 (2005 € 42,583).

The Group entered into financing agreements with commercial banks by which the Group assigned intra-group lease payments to the banks. The borrowings under the financing agreements are repayable in monthly, quarterly or semi-annual instalments and bear interest as follows:

| In thousands of Euro | Maturity date | Carrying amount
31 12 2006 | Carrying amount
31 12 2005 |
|--------------------------|---------------|-------------------------------|-------------------------------|
| Interest rate | | | |
| LIBOR plus 3.00% spread | 2006 | — | 244 |
| LIBOR plus 4.20% spread | 2006 | — | 683 |
| LIBOR plus 0.625% spread | 2006 | — | 13,090 |
| LIBOR plus 0.63% spread | 2006 | — | 42,539 |
| LIBOR plus 0.85% spread | 2008 | — | 1,257 |
| LIBOR plus 0.625% spread | 2010 | 89,395 | 103,995 |
| LIBOR plus 0.85% spread | 2011 | 45,896 | 51,336 |
| LIBOR plus 1.30% spread | 2011 | 1,139 | — |
| LIBOR plus 0.85% spread | 2012 | 58,311 | 70,270 |
| LIBOR plus 1.10% spread | 2012 | 18,708 | 21,401 |
| LIBOR plus 0.95% spread | 2013 | 18,238 | 22,382 |
| LIBOR plus 1.20% spread | 2013 | 20,328 | 22,796 |
| LIBOR plus 1.25% spread | 2013 | 36,361 | 44,458 |
| LIBOR plus 1.85% spread | 2013 | 3,986 | 4,939 |
| LIBOR plus 1.85% spread | 2014 | 17,227 | — |
| LIBOR plus 1.30% spread | 2016 | 225,354 | 51,332 |
| LIBOR plus 1.30% spread | 2017 | 23,538 | — |
| | | 558,481 | 450,722 |

Of this amount € 63,067 (2005 € 99,893) is classified within current liabilities in the balance sheet. The assigned intra-group lease payments are secured over aircraft.

In 2006 several aircraft were refinanced from USD to €. As a result of the refinancing, the Group recognised a foreign currency gain of € 6,626.

Payments for the above-mentioned interest-bearing liabilities and loans due to banks from sales of future intra-group lease payments are due as follows:

| In thousands of Euro | 2006 | 2005 |
|----------------------------|---------|---------|
| Less than one year | 161,064 | 117,370 |
| Between one and five years | 291,481 | 244,719 |
| More than five years | 226,903 | 136,264 |
| | 679,448 | 498,353 |

17 LEASING**Operating leases**

The Group leases a number of aircraft and one Unix-Server under leasing agreements which qualify as operating lease agreements. The leases typically run for a period between five and seven years and terminate automatically upon expiry of the lease term. Lease payments are denominated in USD and vary depending upon the change in the market rate of interest. No restrictions have been placed on the lessee as a result of these leases.

In addition the Group leases a number of warehouse and office facilities under operating leases. The leases expire between 2008 and 2014, with an option to renew the leases after these dates.

Non-cancellable operating lease rentals are payable as follows

| In thousands of Euro | 2006 | 2005 |
|----------------------------|---------|---------|
| Less than one year | 154,052 | 77,426 |
| Between one and five years | 349,996 | 158,065 |
| More than five years | 14,129 | 6,713 |
| | 518,177 | 242,204 |

During the year ending 31 December 2006, € 139,875 (2005 € 104,177) was recognised as an expense in the income statement in respect of operating leases.

Finance leases

In addition, through the purchase of dba the Group now leases certain technical equipment under an agreement which qualifies as a finance lease. The finance lease relates to the technical equipment for fifteen leased aircraft (operating leases) with various leasing terms, the latest of which currently expires in May 2009. The leasing rate is based on flight hours per aircraft, with a guaranteed minimum number of flight hours per aircraft. Any extensions of the underlying aircraft lease agreements or any new aircraft leases of the same make and model will automatically be included in the lease of technical equipment. The leasing rate is adjusted on a yearly basis. No restrictions have been placed on the lessee as a result of these leases.

The net book value included in Technical equipment and machinery at 31 December 2006 as a result of the finance lease is € 5,810.

Future minimum lease payments are as follows

| In thousands of Euro | As at 31 December 2006 | | As at 31 December 2005 | |
|----------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Future minimum lease payments | Discounted to present value | Future minimum lease payments | Discounted to present value |
| Less than one year | 3,557 | 3,442 | 0 | 0 |
| Between one and five years | 2,541 | 2,369 | 0 | 0 |
| More than five years | 0 | 0 | 0 | 0 |
| | 6,098 | 5,810 | 0 | 0 |

No contingent leasing payments were recorded in profit and loss in 2006



06) Financial Statements

18 TRADE PAYABLES AND OTHER LIABILITIES

| In thousands of Euro | 2006 | 2005 |
|---|----------------|----------------|
| Trade payables | 67,706 | 61,164 |
| Accrued liabilities | 99,026 | 45,867 |
| Negative market values from financial derivatives | | |
| Forward contracts | 14,810 | 3,772 |
| Foreign currency options | 257 | 0 |
| Commodity-swaps | 20,191 | 2,093 |
| Cross currency interest rate swaps | 15,944 | 146 |
| Receivables with credit balances | 6,406 | 3,258 |
| Payroll tax | 3,299 | 1,866 |
| Social insurance contributions | 134 | 3,155 |
| Other | 8,623 | 1,082 |
| | 236,396 | 122,403 |

Accrued liabilities include expenses for services provided and goods received before the balance sheet date but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, and accrued vacation and payroll

19 ADVANCED PAYMENTS

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded

20 REVENUE

| In thousands of Euro | 2006 | 2005 |
|---|------------------|------------------|
| Single-seat ticket sales | 867,919 | 632,318 |
| Bulk ticket sales to charter and package tour operators | 589,904 | 496,679 |
| Duty free | 16,336 | 14,975 |
| Ground and other services | 101,236 | 71,268 |
| | 1,575,395 | 1,215,240 |

Ground and other services primarily include codeshare revenue and ancillary sales

Segment information

All revenues derive from the principal activity as an airline and include flights, commissions, inflight and related sales. Since Air Berlin's aircraft fleet is employed across its scheduled destinations on an as needed basis, there is no proper basis of allocating such assets and related liabilities, income and expenses to geographical segments

21 OTHER OPERATING INCOME

| In thousands of Euro | 2006 | 2005 |
|---------------------------------------|---------------|--------------|
| Gain on disposal of fixed assets | 21,407 | 458 |
| Income from services provided to Niki | 476 | 909 |
| Income from insurance claims | 432 | 1,094 |
| Reversal of accrued liabilities | 6,763 | 824 |
| Other | 1,789 | 1,446 |
| | 30,867 | 4,731 |

22 EXPENSES FOR MATERIALS AND SERVICES

| In thousands of Euro | 2006 | 2005 |
|--|------------------|----------------|
| Fuel for aircraft | 345,839 | 239,531 |
| Catering costs and cost of materials for in-flight sales | 59,897 | 58,535 |
| Airport & handling charges | 412,104 | 333,392 |
| Operating leases for aircraft and equipment | 128,156 | 96,163 |
| Navigation charges | 123,012 | 109,018 |
| Other | 25,493 | 27,506 |
| | 1,094,501 | 864,145 |

23 PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows

| In thousands of Euro | 2006 | 2005 |
|----------------------|----------------|----------------|
| Wages and salaries | 139,885 | 99,463 |
| Pension expense | 4,831 | 3,027 |
| Social security | 18,577 | 14,413 |
| | 163,293 | 116,903 |

Pension expense relates to the contributions paid to defined contribution plans of € 355 (2005: € 0) and to the German social security system of € 4,476 (2005: € 3,027) during the period. Further details regarding the pension plan are found in note 14 above.

Remuneration of the executive directors is as follows:

| In thousands of Euro | 2006 | 2005 |
|----------------------|--------------|--------------|
| Basic remuneration | 1,600 | 840 |
| Bonus | 2,000 | 535 |
| Other | 231 | 34 |
| | 3,831 | 1,409 |

The highest paid director received € 1,749 and € 1,006 in total remuneration in 2006 and 2005, respectively. Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 74 to 80.

The average number of persons employed by the group (including directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

| Employees | On annual average | As at 31 December |
|--------------------------------------|-------------------|-------------------|
| 2006 | | |
| Flight and cabin crew | 1,807 | 2,148 |
| Sales, operations and administration | 1,492 | 1,773 |
| | 3,299 | 3,922 |
| 2005 | | |
| Flight and cabin crew | 1,282 | 1,379 |
| Sales, operations and administration | 1,019 | 1,109 |
| | 2,301 | 2,488 |

24 OTHER OPERATING EXPENSES

| In thousands of Euro | 2006 | 2005 |
|--|----------------|----------------|
| Sales commissions paid to agencies | 25,806 | 37,208 |
| Repairs and maintenance of technical equipment | 58,352 | 35,921 |
| Advertising | 34,751 | 29,199 |
| Insurances | 18,640 | 15,561 |
| Hardware and software expenses | 18,752 | 11,298 |
| Bank charges | 9,413 | 7,825 |
| Travel expenses for cabin crews | 10,459 | 7,241 |
| Expenses for premises and vehicles | 12,541 | 8,663 |
| Losses from disposal of fixed assets | 0 | 5,824 |
| Training and other personnel costs | 5,351 | 4,556 |
| Phone and postage | 3,527 | 2,763 |
| Allowances for receivables | 2,340 | 1,018 |
| Remuneration of the auditor | 1,623 | 1,482 |
| Other | 18,533 | 13,349 |
| | 220,088 | 181,908 |

Remuneration of the Auditor is as follows:

| In thousands of Euro | 2006 | 2005 |
|--|--------------|--------------|
| Audit | 89 | 110 |
| Audit of accounts of subsidiaries of the company | 348 | 128 |
| Other services pursuant to such legislation | 282 | 90 |
| Other services relating to taxation | 500 | 841 |
| Services related to corporate finance transactions | 25* | 0 |
| Other services | 379 | 313 |
| | 1,623 | 1,482 |

* a further € 291 is included in financial expenses below



06) Financial Statements

25 FINANCIAL EXPENSES

| In thousands of Euro | 2006 | 2005 |
|--|---------------|---------------|
| Interest on interest-bearing liabilities | 28,090 | 19,026 |
| Other financial expenses | 13,815 | 0 |
| Impairment of associates | 12 | 0 |
| | 41,917 | 19,026 |

Other financial expenses include € 13,667 related to the listing of existing shares

26 FOREIGN EXCHANGE GAINS (LOSSES), NET

| In thousands of Euro | 2006 | 2005 |
|--|---------------|-----------------|
| Total net foreign exchange gains (losses) recognised in profit or loss | 20,476 | (6,308) |
| Thereof reclassified to operating expenses | (5,619) | (42,884) |
| Foreign exchange gains (losses) in profit or loss | 14,857 | (49,192) |

As described in note 4 n) above, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses

27 SHARE OF PROFIT OF ASSOCIATES

| In thousands of Euro | 2006 | 2005 |
|-------------------------------------|------------|-----------|
| IBERO Tours GmbH | 43 | 2 |
| Stockheim Air Catering GmbH & Co KG | 565 | 37 |
| | 608 | 39 |

28 INCOME TAX EXPENSES / DEFERRED TAX

Profit or loss before tax is completely attributable to Germany Income tax expense is as follows

| In thousands of Euro | 2006 | 2005 |
|------------------------------------|--------------|-----------------|
| Current income taxes | (3,147) | (1,076) |
| Deferred income taxes | 8,119 | (43,953) |
| Total income tax benefit (expense) | 4,972 | (45,029) |

The Group is subject to both corporation tax and trade tax. The corporation tax rate for retained and distributed profits is 25%. In addition to corporation tax, a solidarity charge is also levied amounting to 5.5% of the payable corporation tax. Trade tax is deductible for corporation tax purposes and the effective trade tax varies depending on the municipality in which the company operates. In 2006, the total tax rate (including corporation tax and trade tax) for the Air Berlin group amounted to 38.90% (2005: 38.90%). Furthermore, in 2005 several members of the Air Berlin Group relocated their offices to Schönefeld, where the total tax rate amounts to 33.07%. In addition dba has a total tax rate of 37.34% instead of 38.90%. The difference to the group tax rate is shown as "tax rate difference" in the tax rate reconciliation. The reasons for the differences between the tax burden expected on the basis of profit (loss) for a period and the recognised income tax expenses are as follows:

| In thousands of Euro | 2006 | 2005 |
|---|--------------|-----------------|
| Profit (loss) before tax | 45,085 | (70,871) |
| Expected income tax benefit (expense) at 38.9% | (17,538) | 27,569 |
| Effect of the change in tax status | 0 | (59,466) |
| Recognition of tax loss carryforwards previously not recognised | 10,365 | 0 |
| Tax rate difference current year | 10,742 | (7,039) |
| Utilisation of tax loss carryforwards | 1,285 | 0 |
| Forfeiture of tax loss carryforwards | 0 | (6,003) |
| Other | 118 | (90) |
| Total income tax benefit (expense) | 4,972 | (45,029) |

The position "Effect of the change in tax status" in 2005 shows the tax effect that the new group structure has caused (application of corporation tax) and the effect of the re-valuation of deferred tax assets and liabilities in the companies due to the relocation of operations to Schönefeld

As mentioned above, parts of the group are subject to trade tax at lower rates than the other group companies. This leads to a tax rate difference in the amount of € 10,742 in 2006 (€ -7,039 in 2005)

In addition, € 113,723 in trade tax loss carryforwards previously unrecognised were approved by the German tax authorities in 2006. This led to an increase in the deferred tax asset of € 10,365 in 2006

As of 31 December 2006, total tax loss carryforwards for trade tax purposes amount to € 293,120 and for income tax purposes to € 140,841. The tax loss carryforwards are not subject to expiration. However, the usage of tax loss carryforwards may be limited due to minimum tax provisions. According to German Corporate Tax Law (KStG) and Trade Tax Law (GewStG), tax law carryforwards may be used unlimited up to the amount of € 1,000 of profits for the year. The remaining profits may be off-set with tax loss carryforwards only by 60% of the profits for the year. Deferred tax assets have been recognised accordingly. This assumption is corroborated by the taxable income resulting from reversals of deferred tax liabilities. As a consequence of the restructuring, the trade tax loss carryforward at Air Berlin PLC & Co. Luftverkehrs KG in the amount of € 35,288 was forfeited in 2005.

Deferred tax assets and liabilities are attributable to the following

| In thousands of Euro | 2006 | 2005 |
|-------------------------------------|---------------|---------------|
| Deferred tax assets | | |
| Technical equipment | 0 | 6,148 |
| Items recorded in equity net of tax | 9,970 | 0 |
| Foreign currency liabilities | | |
| and derivatives | 18,278 | 2,071 |
| Tax loss carryforwards | 68,341 | 5,685 |
| | 96,590 | 13,904 |

Deferred tax liabilities

| | | |
|------------------------------|------------------|------------------|
| Aircraft and engines | | |
| and related liabilities | (106,706) | (108,302) |
| Intangible assets | (26,822) | 0 |
| Financial assets | 0 | (47) |
| Technical equipment | (275) | 0 |
| Leasehold improvements | (92) | (56) |
| Other timing differences | (1,563) | (1,668) |
| Foreign currency liabilities | | |
| and derivatives | (106) | (664) |
| | (135,563) | (110,737) |

| | | |
|-------------------------------|-----------------|-----------------|
| Offsetting | 96,590 | 13,904 |
| Deferred tax liabilities, net | (38,974) | (96,833) |

| | | |
|-------------------------------------|--------------|-----------------|
| Deferred tax liability, | | |
| net beginning of period | (96,833) | (52,880) |
| Change in deferred tax liabilities | 57,859 | (43,953) |
| thereof resulting from purchase | | |
| price allocation | (27,718) | 0 |
| thereof related to cash flow hedges | | |
| and items recorded in equity | (22,022) | 0 |
| Deferred income tax | | |
| benefit (expense) | 8,119 | (43,953) |



06) Financial Statements

29 CONTINGENCIES

The Group is defendant in a claim in which the airport is seeking fees of € 501 in 2006 (€ 2,362 in 2005) due to infrastructure measures. Management of the Group is of the opinion that the airport's claim is without merit and the Group will prevail in defending the claim.

30 HEDGE POLICY AND FINANCIAL INSTRUMENTS

As an airline, the Air Berlin Group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. Air Berlin uses derivatives to limit these risks.

As of the second quarter 2006 Air Berlin applies hedge accounting for its hedges of future foreign currency denominated cash flows that satisfy the criteria under IAS 39, thus reducing income statement volatility. In the third quarter Air Berlin expanded its hedge accounting to include its hedges of future cash flows related to the purchase of jet fuel. Both are accounted for as cash flow hedges.

IAS 39 sets out strict requirements on the use of hedge accounting. Air Berlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship

between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are released from equity to the consolidated statements of income in the period when the hedged cash flow affects profit or loss (2007 and 2008 for foreign currency hedges and 2007 for fuel hedges).

Air Berlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives Air Berlin recognises the changes in fair value as profit or loss.

The derivatives that existed as at the balance sheet date for hedging exchange rate, interest rate and fuel price risks had the following (net) fair values:

| In thousands of Euro | Fair value at
31 December
2006 | Fair value at
31 December
2005 | Change in fair
value of
derivatives | Recognised
in profit
or loss | Recognised
in equity |
|--------------------------------------|--------------------------------------|--------------------------------------|---|------------------------------------|-------------------------|
| Forward-exchange transactions | (10,824) | (3,772) | (7,052) | 3,772 | (10,824) |
| Foreign currency options | (62) | 0 | (62) | (62) | 0 |
| Cross currency interest rate swaps | (15,944) | (146) | (15,798) | (15,798) | 0 |
| Commodity-swaps fuel-price hedging | (20,157) | (2,093) | (18,064) | 2,093 | (20,157) |
| Commodity-options fuel-price hedging | 0 | 1,708 | (1,708) | (1,708) | 0 |
| | (46,987) | (4,303) | (42,684) | (11,703) | (30,981) |

The fair values of derivatives are capitalised as other assets or reported as other liabilities.

a) Currency hedging (100% hedge accounting as of the second quarter of 2006)

Air Berlin enters into USD currency forwards in order to manage functional currency risk which arises on operating costs (e.g., payments regarding aircraft financing and leasing, fuel) denominated in USD. Within the cash planning, Air Berlin is able to determine the exact future foreign currency expense and payment dates. Therefore, Air Berlin uses forward exchange contracts as basis for hedging and cash planning. Air Berlin generally hedges up to 90% of the expected cash flow on a 12—24 months revolving basis. At the balance sheet date 2006, the hedged currency position in USD amounted to USD 767,0 million for the business year 2007 and USD 515,0 million for the business year 2008 (2005: USD 347,2 million for the business year 2006). The value of the currency forward contracts amount to a total of € 973,6 million (2005: € 289,6 million) and was determined using the market exchange rates of the balance sheet date.

b) Hedging of interest rate risk

The interest bearing liabilities and liabilities due to banks from assignment of future lease payments expose the Group to variability in interest payments due to changes in interest rates and to a foreign currency risk. Air Berlin uses cross-currency interest rate swaps to hedge these risks.

c) Hedging of fuel price risk (100% hedge accounting as of the third quarter of 2006)

The fuel price (kerosene) plays an important role as far as the business performance of the Group is concerned. The kerosene expense of Air Berlin amounted to 22.4% (2005: 19.5%) of the entire operating expense. At the balance sheet date 2006, the hedged volume was 579,400 tons (2005: 56,500 tons) for the business year 2007. Air Berlin used commodity swaps (in 2005 both swaps and options) to hedge the exposure.

d) Credit risk

The sale of passage and freight documents is handled via agencies and internet within the sphere of influence of IATA. These agencies are overwhelmingly connected with country-specific clearing systems for the settlement of passage or freight sales. Individual agents are checked by the particular clearing houses. The credit risk from sales agents is relatively low due to their dispersion worldwide. Where the agreements upon which a payment is based do not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a bilateral basis or via a Clearing House of the International Air Transport Association (IATA). Settlement takes place principally through the balancing of all receivables and liabilities at regular monthly intervals, which contributes to a significant reduction in the risk of non-payment. A separate security may be required in the particular payment agreement for other transactions.

For all other payment relationships, depending upon the type and level of the particular payment, securities may be required or credit information/references obtained. Historical data from the business relationship up until that point, in particular in relation to payment behaviour, may be used in an effort to avoid non-payment. Recognisable risks are accounted for by valuation adjustments on receivables. The credit risk from investments and derivative financial instruments arises from the risk of non-payment by a contract partner. Since the transactions are concluded with contracting parties of the highest possible credit rating the risk of non-payment is extremely low.

e) Liquidity risk

Liquidity in the Group is protected by appropriate liquidity planning and adequate financing structure.

f) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The carrying amounts of financial assets and liabilities approximate their fair values.



06) Financial Statements

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments

✈ Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs

✈ Derivatives

Forward exchange contracts, interest rate contracts and fuel price contracts are marked to market using listed market prices

✈ Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows and is equal to their carrying amounts at the balance sheet date

✈ Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount 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

31 CASH FLOW STATEMENT

The Cash Flow Statement of the Air Berlin Group is presented according to the indirect method. Financial resources include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months

| In thousands of Euro | 2006 | 2005 |
|--|----------|---------|
| Cash | 409 | 157 |
| Bank balances | 54,266 | 11,564 |
| Fixed-term deposits | 261,246 | 177,330 |
| Cash and cash equivalents | 315,921 | 189,051 |
| Bank overdrafts used for cash management purposes | (87,827) | 0 |
| Cash and cash equivalents in the statement of cash flows | 228,094 | 189,051 |

32 RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors, general partners, subsidiaries (see note 36), and associates (see note 8). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 74 to 80). One of the Executive Directors of the Group controls a voting share of 3.48% (2005: 5%) of Air Berlin. In addition, a receivable of € 82 is due from one of the Directors and is included in Other current assets in the balance sheet as at 31 December 2006 (2005: € 0).

The Chairman of the Board, also a shareholder of the Company with a voting share of 1.68%, is the sole shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH in 2006 and 2005 of € 13,599 and € 13,425, respectively. At 31 December 2006 and 2005, € 639 and € 818, respectively, are included in the balance sheet in trade receivables.

During the years ending 31 December 2006 and 2005 associates purchased or delivered goods and services

| In thousands of Euro | 2006 | 2005 |
|--|--------|--------|
| IBERO-Tours | | |
| Revenues from ticket sales | 21 | 92 |
| Trade receivables | 0 | 10 |
| Expenses for services | 732 | 0 |
| SCK DUS GmbH & Co. KG
(in 2005: Stockholm) | | |
| Catering expenses | 18,288 | 17,983 |
| Trade payables | 612 | 84 |
| Lee & Lex Flugzeugvermietung GmbH | | |
| Other current assets | 1,529 | 0 |
| Niki Luftfahrt GmbH | | |
| Other income from administrative services | 476 | 909 |
| Other current assets | 7,170 | 5,154 |

Other current assets from Lee & Lex Flugzeugvermietungs GmbH relate to a loan receivable in the amount of USD 960 (€ 779) and a partial debenture of € 750 (30 debentures at € 25 each), which are described in more detail in Note 10 above.

Transactions with associates are priced on an arm's length basis

Dividends received from associates in 2006 are € 500 (2005 € 369)

33 CAPITAL COMMITMENTS

In 2004 the Group entered into a contract to purchase 60 A320 aircraft, which are to be delivered between 2005 and 2012. In 2006 a purchase order for 25 Boeing B737 aircraft was assumed in connection with the acquisition of dba. This purchase order was then combined with a new purchase order with Boeing for 60 B737 aircraft, which was signed in the fourth quarter of 2006. Delivery of the 85 B737 aircraft is scheduled from November 2007 to 2014.

Nine A320 aircraft were delivered in 2006 (2005: two), and twelve A320 and one B737 aircraft are scheduled for delivery in 2007 as a result of the above-mentioned agreements. In total, 49 A320 and 85 B737 are outstanding at 31 December 2006.

34 EXECUTIVE BOARD OF DIRECTORS

Executive directors

| | |
|----------------|--|
| Joachim Hunold | Chief Executive Officer |
| Ulf Hutmeyer | Chief Financial Officer
(since 1 February 2006) |
| Karl Lotz | Chief Operating Officer |
| Elke Schutt | Chief Commercial Officer |

35 NOTES TO THE COMPANY BALANCE SHEET

The Company was incorporated on 2 December 2005 and was not required to prepare financial statements in 2005. As a result, the Company balance sheet only shows the financial position of the Company as at 31 December 2006 and does not include comparative figures.

a) Significant accounting policies

The accounting framework and significant accounting policies described in notes 2 and 4 above also apply to the Company financial statements. In addition the following accounting policies were applied.

Investments in subsidiaries are recorded at cost and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries are initially recognised at cost, which approximates their fair value.

b) Investments in subsidiaries

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 3b to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

| In thousands of Euro | Investments
in subsidiaries |
|---|--------------------------------|
| Acquisition cost | |
| Balance at date of incorporation
(2 December 2005) | 0 |
| Additions | 140,165 |
| Balance at 31 December 2006 | 140,165 |

As of 31 August 2006 (acquisition date) Air Berlin PLC acquired 100 percent of the shares of dba Luftfahrtgesellschaft GmbH, München (in following "dba") for a purchase price of € 130,000. Transaction costs incurred in connection with the acquisition amount to € 1,385. The acquisition of dba is detailed in note 5 to the consolidated financial statements. In addition, the Company founded the following subsidiaries in 2006: CHS Switzerland AG, CHS Netherlands NV, CHS Holding & Services GmbH, Air Berlin Switzerland GmbH and Air Berlin Netherlands BV at a total cost of € 165. The remaining € 10,000 relates to additional shares issued as part of the reverse acquisition described in note 3a.

c) Deferred tax assets

Profit or loss before tax is completely attributable to the branch in Germany. Income tax benefit is as follows:

| In thousands of Euro | 2006 |
|--------------------------|-------|
| Current income taxes | 0 |
| Deferred income taxes | 5,918 |
| Total income tax benefit | 5,918 |



06) Financial Statements

The Company is subject to both corporation tax and trade tax in Germany. The corporation tax rate for retained and distributed profits is 25%. In addition to corporation tax, a solidarity charge is also levied amounting to 5.5% of the payable corporation tax. Trade tax is deductible for corporation tax purposes and the effective trade tax varies depending on the municipality in which the company operates. In 2006, the total tax rate (including corporation tax and trade tax) for the Company amounted to 38.9% (2005: 38.9%).

Deferred tax assets are attributable to the following

| In thousands of Euro | 2006 |
|---|---------|
| Deferred tax assets | |
| Tax loss carryforwards | 15,888 |
| Deferred tax assets | 15,888 |
| thereof related to items recorded in equity | (9,970) |
| Deferred income tax benefit | 5,918 |

The total tax loss carryforward for the period was € 40,844, resulting in a deferred tax asset on the tax loss carryforward of € 15,888. Of this amount, € 9,970 was recorded directly in equity as a reduction in the IPO costs, which were also recorded in equity. The remaining € 5,918 was recorded as deferred tax benefit in the profit or loss.

A reconciliation between the tax burden expected on the basis of profit (loss) for a period and the recognised income tax expenses is as follows

| In thousands of Euro | 2006 |
|--------------------------------------|----------|
| Loss before tax | (15,214) |
| Expected income tax benefit at 38.9% | 5,918 |
| Total income tax benefit recognised | 5,918 |

d) Other current assets

Other assets mainly include receivables from tax authorities and VAT tax receivables.

e) Share capital and reserves

The capital structure Air Berlin PLC is that of the Group, except that certain reserves on the consolidated level are not relevant at Company level.

On 27 April 2006, ordinary shares were increased by 44,400 shares of € 1.00 each due to the issue of shares pursuant to the "2006 Employee Share Plan". Further, a subsequent 4:1 stock split of each authorised ordinary share was adopted. During the course of a public offering on 11 May 2006, 19,565,217 ordinary shares of € 0.25 each were issued at a total share premium of € 214,190 net of transaction cost. Additional transaction costs of € 13,667 relating to the listing of existing shares are recognised in the income statement under financial expenses.

A full description of the Company's share capital and reserves is detailed in note 11 to the consolidated financial statements. The Employee Share Plan is detailed in Note 13 to the consolidated financial statements.

f) Accrued liabilities

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the balance sheet date.

g) Other liabilities

Other liabilities primarily include the annual bonus payable to the directors.

h) Related party transactions

The Company has related party relationships with its Directors and subsidiaries (see note 36 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 74 to 80). One of the Executive Directors of the Group controls a voting share of 3.48% (2005: 5%) of Air Berlin. In addition, the Chairman of the Board is also a shareholder of the Company with a voting share of 1.68%.

The Company had the following transactions with related parties during the year ending 31 December 2006

| In thousands of Euro | 2006 |
|--|-------|
| Air Berlin PLC & Co Luftverkehrs KG | |
| Revenues | 2,557 |
| Receivables from subsidiaries | 686 |
| Other operating expenses | 590 |
| Payables to subsidiaries | 386 |
| Pegasus 1 — 7 Luftfahrtbeteiligungsgesellschaft mbH | |
| Revenues | 17 |
| Payables to subsidiaries | 21 |
| CHS Cabin and Handling Service GmbH | |
| Payables to subsidiaries | 45 |
| Executive and Non-Executive Directors | |
| Personnel expense | 3,592 |
| Other operating expenses | 319 |
| Other liabilities | 2,000 |

i) Employees

The Company does not have any employees other than its four Executive Directors (in 2005 0). Their remuneration is included in note 23 above as well as in the Directors' Remuneration Report on pages 74 to 80

Payroll costs for the period were as follows

| In thousands of Euro | 2006 | 2005 |
|--------------------------|-------|------|
| Basic wages and salaries | 1,600 | 0 |
| Bonus | 2,000 | 0 |
| | 3,600 | 0 |

In addition, the Executive Directors are Participants in the Employee Share Plan 2006, which is described in detail in note 13 above as well as in the Directors' Remuneration Report



06) Financial Statements

36 SUBSIDIARIES

| Subsidiary | Country of incorporation | 2006 | 2005 |
|--|--------------------------|------|------|
| Air Berlin PLC & Co Luftverkehrs KG | Germany | ✖ | ✖ |
| Air Berlin Luftfahrttechnischer Betrieb GmbH | Germany | ✖ | ✖ |
| AB Erste Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| AB Zweite Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| AB Dritte Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| AB Vierte Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| AB Achte Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| AB Neunte Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| AB Zehnte Flugzeugvermietungs GmbH | Germany | ✖ | ✖ |
| Air Berlin GmbH & Co Fünfte Flugzeugvermietungs OHG | Germany | ✖ | ✖ |
| Air Berlin GmbH & Co Sechste Flugzeugvermietungs OHG | Germany | ✖ | ✖ |
| Air Berlin GmbH & Co Siebte Flugzeugvermietungs OHG | Germany | ✖ | ✖ |
| Euconus Flugzeugleasinggesellschaft mbH | Germany | ✖ | ✖ |
| Joachim Hunold & Co Flugzeugvermietungs KG i. L. | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Bayern GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Mitte GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Nord GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Ost GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Süd GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service West GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Süd-West GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service Nord-West GmbH | Germany | ✖ | ✖ |
| CHS Cabin and Handling Service NRW-West GmbH | Germany | ✖ | ✖ |
| CHS Switzerland AG ** | Switzerland | ✖ | ✖ |
| CHSC Cabin and Handling Service Center GmbH | Germany | ✖ | ✖ |
| CHAS Cabin und Handling Airport Service GmbH | Germany | ✖ | ✖ |
| Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH ** | Germany | ✖ | ✖ |
| dba Luftfahrtgesellschaft mbH ** | Germany | ✖ | ✖ |
| Air Berlin Switzerland GmbH ** | Switzerland | ✖ | ✖ |
| Air Berlin Netherlands B V ** | Netherlands | ✖ | ✖ |
| CHS Netherlands N V ** | Netherlands | ✖ | ✖ |
| CHS Holding & Services GmbH ** | Germany | ✖ | ✖ |
| CHAS International Airport Service GmbH | Germany | ✖ | ✖ |
| Air Berlin Employee Share Trust* ** | United Kingdom | ✖ | ✖ |

* consolidated as a Special Purpose Entity in 2006

** shares held directly by Air Berlin PLC (the remaining subsidiaries are held indirectly through other Group companies)

Except for the special purpose entity, Air Berlin Employee Share Trust, Air Berlin PLC holds (directly or indirectly) 100% of the ordinary share capital of the subsidiaries

GLOSSARY

✈ **ANCILLARY REVENUE**

Supplementary revenue beyond ticket sales

✈ **ASK**

Available seat kilometres, number of seats available for sale, per flight segment, multiplied by the number of kilometres flown on a flight, often a 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**

Frills are free and/or additional services provided in connection with the flight

✈ **IATA**

International Air Transport Association

✈ **LOW-COST-CARRIER (LCC)**

Also known as "low-fare carrier"

✈ **PAX**

Passenger

✈ **RPK**

Revenue passenger kilometres. Number of passengers multiplied by the number of kilometres they cover in flight

✈ **SLOT**

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

✈ **PASSENGER LOAD FACTOR**

Percentage value to indicate the utilisation of an aircraft or an entire fleet within a certain time period, either on a route or within a route network. Represents the ratio of the revenue passenger kilometres (RPK) to the available seat kilometres (ASK)

✈ **WET LEASE**

Leasing an aircraft including personnel

✈ **YIELD**

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

✈ **YIELD MANAGEMENT**

Price management system to increase average earnings

PUBLICATION DATA

REGISTERED OFFICE

The Hour House, 32 High Street,
Rickmansworth, WD3 1ER Herts,
Great Britain

INVESTOR RELATIONS MANAGER

Dr Ingolf T Hegner
Head of Investor Relations
Saatwinkler Damm 42-43
13627 Berlin, Germany
E-Mail ihegner@airberlin.com

OUTSIDE CONSULTANTS

Registrar

Registrar Services GmbH
Postfach 60630
Frankfurt am Main
Office Frankfurter Strasse 84-90a,
65760 Eschborn, Germany

Auditors

KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL
Great Britain

Legal counsel

Freshfields Bruckhaus Deringer
Taunusanlage 11
60329 Frankfurt am Main
Germany

CONCEPTION AND GRAPHIC DESIGN

Strichpunkt GmbH, Stuttgart
www.strichpunkt-design.de

PHOTOGRAPHY

Claudia Kempf, Wuppertal
www.claudiakempf.com

POST PRODUCTION

BRK Reproduktions GmbH, Stuttgart
www.brk-net.de

PRINT PRODUCTION

bzmedien gmbh, Cologne
www.bzmedien.de