2016

AIRBERLIN

ANNUAL REPORT

airberlin

- THE NEW AIRBERLIN:
  COMPREHENSIVE REALIGNMENT OF THE BUSINESS MODEL
- EN ROUTE TO A FOCUSED DUAL-HUB NETWORK CARRIER

FINANCIAL FIGURES

2016

FINANCIAL PERFORMANCE INDICATORS

	2016 vs. 2015 in per cent	2016	2015*	2014*
Revenue (in million euros)	−7.3	**3,785.4**	4,081.8	4,158.4
thereof flight revenue (in million euros)	−10.0	**3,339.3**	3,631.1	3,736.0
EBITDAR (in million euros)	−70.8	**90.6**	358.9	351.2
EBIT (in million euros)	−117.3	**−667.1**	−307.0	−293.8
Consolidated loss for the period (in million euros)	−75.1	**−781.9**	−446.6	−376.7
Earnings per share (in euros)	−71.5	**−6.93**	−4.04	−3.31
Total assets (in million euros)	−2.9	**1,382.6**	1,418.4	1,863.6
Employees (as at 31 December)	−4,4	**8,481**	8,869	8,440

OPERATING PERFORMANCE INDICATORS

	2016 vs. 2015 in per cent	2016	2015*	2014*
Passengers (PAX)	−4.4	**28,920,991**	30,249,263	31,716,202
Flight revenue per PAX (yields)	−3.8	**115.46**	119.99	120.07
Available / flown seat kilometres (in billion; ASK)	−2.7	**54.34**	55.84	59.03
Total revenue per ASK (RASK; EURct)	−4.7	**6.97**	7.31	7.04
Total costs per ASK (CASK; EURct)	+2.3	**8.19**	7.86	7.54
Revenue passenger kilometres (in billion; RPK)	−2.5	**45.82**	47.01	49.27
Load factor (in per cent; RPK/ASK)	+1.0**	**84.3**	84.2	83.46
Destinations (as at 31 December)	−2.2	**135**	138	147
Number of aircraft at year-end (operational fleet)	−9.2	**139**	153	149

* several figures differing from previously reported statements due to accounting changes; for further explanations see note 20 on page 133

** percentage points

Definitions of performance indicators: See Glossary section on page 164

PLEASE NOTE THE FOLLOWING INFORMATION:
In this report, Air Berlin PLC is also referred to as "the Company". References to "airberlin", "airberlin group", "we", or "our" refer to Air Berlin PLC and/or, depending on the context, Air Berlin PLC and its subsidiaries.
This report uses the generic masculine form, which refers equally to both male and female persons.

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TO OUR SHAREHOLDERS

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

THOMAS WINKELMANN

Dear shareholders,

A new era for airberlin has started. This report covers the 2016 financial year, the year in which we introduced our strategic turnaround. It is now my job to lead airberlin to success. That also means critically analysing our existing strategy. Nothing is set in stone. We are realigning the former so-called hybrid carrier, which wanted to do everything and was unable to deliver. We are turning it into a focused network airline, the new airberlin. We will concentrate in future on our 75 aircraft, our two hubs in Berlin and Düsseldorf, our long-haul flights and on services to major German and European cities.

The fundamental first steps towards our new structure have already taken place. The wet-lease agreement with the Lufthansa Group for 38 A320 family aircraft has made good progress. The cooperation between airberlin and the Lufthansa Group is working with 35 of these 38 aircraft are now successfully in operation. What is more, with the wet lease agreement we have been able to sustainably secure jobs for the German aviation sector.

The disposition of our seasonal warm weather touristic business is underway. As a first step, we have transferred 35 leisure dedicated aircraft to NIKI with the start of the summer 2017 season. Secondly we will transfer NIKI to Etihad Investment Holding, which intends to contribute this business to a new airline group to be established with TUI AG.

The new airberlin is already now the USA expert from Berlin and Düsseldorf. No other airline offers as many connections to the USA from these two cities as airberlin. And we will expand our position from May with additional long-haul flights.

So our hubs represent two strong markets, which are the envy of many of our competitors. Berlin is a strong incoming market, which for the last 10 years has grown faster than the average of all German airports. Dusseldorf is situated in the heart of one of the most attractive markets in Europe with a strong tradition of business travel. Dusseldorf is a strong and reliable partner for airberlin. Berlin will only really take off once the Berlin Brandenburg (BER) airport opens. Until then we will have to live with Tegel. We are the only airline to offer a substantial number of long haul flights from Berlin and thereby suffer disproportionately from Tegel's capacity constraints and BER's uncertain future prospects.

I have established a separate department for the tasks ahead. As Chief Transformation Officer, Neil Mills and his team will focus on improving the overall performance of airberlin. There are no taboos. Allow me to share a few current examples: Given fierce competition, yields are under pressure and as such we are reassessing our distribution and channel strategy. We have postponed the launch of our long-distance offering to Hongkong, as the business case must be right. Other key areas of focus are the improvement in customer service, the consequent digitalisation and the tighter management of our service providers.

It is our task to position new airberlin in the aviation market. This means that we need to improve airberlin's cost structure in a sustainable manner. We have the trust of our shareholders for this course of action. And that is why I am delighted that our partner Etihad Airways is completely behind us. Our excellent partnership with Etihad has been in place for over five years and will continue.

It should be noted that the financial results for 2016 are highly unsatisfactory. They still reflect the old business model of a hybrid carrier, which wanted to do everything. It also contains elements of a new beginning. Starting afresh means that we need to get rid of unnecessary ballast. This has made significant reassessment necessary, which is reflected in our balance sheet and results. This means that we will go into the new financial year with less baggage, even if the first half of the year is still marked by the transition. 2017 will demand a lot from airberlin and our employees. We have set out with a clear plan. And we are making airberlin an attractive airline again. Attractive for employees, for passengers and for new partnerships and co-operations.

Thomas Winkelmann
Chief Executive Officer

LETTER FROM THE CHAIRMAN OF THE BOARD

DR. HANS-JOACHIM KÖRBER
CHAIRMAN OF THE BOARD OF DIRECTORS

The fundamental restructuring of airberlin

airberlin's business model – a single-platform strategy serving multiple market segments from numerous bases, associated with high seasonality and ensuing structural inefficiencies – was no longer sufficiently viable given the changes in the international markets. Therefore, in the second half of 2016, a comprehensive review was launched followed by the development of a fundamentally different business strategy. As a result, airberlin is now re-emerging as a focussed network carrier. The network's redesign and a sharp reduction in seasonality are at the centre of this transformation. The clear goal is year-round, well-utilised operations with planning certainty and reduced aircraft requirements.

The basic foundation for these changes was created with the help of two defining transactions. The first was a six-year wet-lease agreement concluded for the operation under a wet lease arrangement of 38 A320 family aircraft for the Lufthansa Group. This agreement gives airberlin considerable planning certainty and allows it to reduce overcapacity and keep restructuring expenses to a minimum.

The second transaction is the planned sale of the largely European touristic business with its seasonal inefficiencies, to Etihad Airways group company. Etihad plans to contribute this business to a new airline group to be established with TUI AG.

These measures will significantly contribute to bringing airberlin's business model in line with the changes in the market environment and successfully position the Company for the future. The Company's focus going forward will be a clear dual-hub strategy based on the hubs in Berlin and Düsseldorf. Additional strategic destinations, increased frequencies and high-yield routes will be used to enhance and expand the long-haul portfolio. Offers will be made more attractive and available for business travellers in particular. For example, airberlin's offers are now distinctly based on two separate classes. All business class seats on long-haul flights are lie-flat seats.

The restructuring and harmonisation of airberlin's fleet, which consists exclusively of Airbus aircraft, has also been completed.

The work of the Board of Directors

The work of the Board of Directors and its committees during the 2016 financial year is described in detail in the Corporate Governance Report contained in this Annual Report on page 51.

Personnel

BOARD OF DIRECTORS

Mr Nicolas Teller retired from the Board of Directors with effect from 30 June 2016. Mr Teller has accompanied airberlin as a Non-Executive Director since the Company's initial public offering in 2006. At the end of the 2016 financial year, Dr Lothar Steinebach resigned from the Board after serving as a Non-Executive Director of Air Berlin PLC since 1 October 2013. The Board would like to thank both gentlemen for their contribution and commitment to the Company.

Mr Stefan Pichler, Chief Executive Officer of Air Berlin PLC from 1 February 2015 resigned from the Company at the end of January 2017 at his own request, after two years of being a driving force in the Company's strategic reorientation. He was successful in developing the basis for the new airberlin and the comprehensive restructuring plan. The Board of Directors would like to thank Mr Pichler for his tireless effort to ensuring the Company's turnaround.

MANAGEMENT BOARD

As at 1 March 2016, the Board of Directors appointed two internationally experienced top managers: Mr Neil Mills as the new Chief Strategy & Planning Officer (CSPO) and Mr Oliver Iffert as the new Chief Operations Officer (COO). On 3 April 2017, Neil Mills assumed the new position of Chief Transformation Officer (CTO), which was created during the implementation of the new corporate strategy. All of the activities that strengthen the overall performance of the new airberlin are combined under this new role.

Mr Marco Ciomperlik acted as the Company's Chief Production Officer (CPO) until 1 March 2016 before taking over the newly created position of Director Group Synergies. Effective 15 September 2016, Mr Dimitri Courtelis was appointed Chief Financial Officer (CFO) of the airberlin group. The financial and aviation expert had been the Company's Deputy Chief Financial Officer from November 2015. The previous Chief Financial Officer, Mr Arnd Schwierholz, resigned from his position at his own request and is no longer with the Company. On 1 March 2017, Mr Götz Ahmelmann was appointed the new Chief Commercial Officer (CCO) of airberlin. He returned to airberlin from Etihad Airways and contributes his international sales experience to airberlin's transformation to a focussed network carrier. The former CCO, Julio Rodriguez, assumed the role of Chief Commercial Officer (CCO) at airberlin's subsidiary NIKI on 1 March 2017.

AIRBERLIN'S NEW CEO THOMAS WINKELMANN

On 1 February 2017, Mr Thomas Winkelmann assumed the position of Chief Executive Officer (CEO).

Thomas Winkelmann will continue to drive forward the Company's restructuring and reorientation. With over 18 years of success in aviation, Thomas Winkelmann began his career at the Lufthansa Group. His last position was Chief Executive Officer of the Lufthansa Group's Munich hub. The Board of Directors is confident that with the addition of Thomas Winkelmann it has gained a recognised executive and one of the most experienced and acknowledged figures in the international aviation industry.

ON A PERSONAL NOTE

To the Air Berlin PLC shareholders, business partners and friends of the Company, after more than eleven years as a member of the Company's Board of Directors and six years as its chairman, I will resign from my position mid of May.

Our airberlin flew through a number of turbulences during this time and was confronted with a number of adverse market factors. Questionable fiscal regulations, the failed completion of the new home airport, the threat of terrorism and natural catastrophes, highly dynamic changes in the market and airberlin's own mistakes, for example, in the area of acquisitions have all resulted in high demands being made on airberlin's Board consistently for a number of years. It has always been my conviction that when managers and Board members reach a certain age they should place their responsibilities in younger hands. I also believe that airberlin is on the right track after the unprecedented effort made to implement its reorientation. I see this as a good time to hand over my responsibilities with a great deal of confidence in the Company's future! The Company's fundamental realignment and further redevelopment of the business model towards a focussed network carrier based at the hubs in Berlin and Düsseldorf, European metropolitan routes and attractive long-haul offers point in the right direction!

I would like to thank all those who have accompanied me and supported my work over the years at airberlin and wish the Company and all of its employees tremendous success.

A WORD OF THANKS

The Board of Directors would like to thank the employees of the airberlin group and the Company's management team for their continued strong commitment to securing the Company's future.

Dr Hans-Joachim Körber
Chairman of the Board of Directors

THE BOARD OF DIRECTORS

Executive Director

THOMAS WINKELMANN

Chief Executive Officer (CEO)

Thomas Winkelmann, born in Hagen, Germany, in 1959, was appointed Chief Executive Officer (CEO) of Air Berlin PLC effective from 1 February 2017. Thomas Winkelmann studied linguistics and ancient history at the Free University (Freie Universität) of Berlin and the University of Münster. As a postgraduate, he continued his studies in business administration. In 2004, he successfully completed the Advanced Management Program at Harvard Business School in Boston. After various management positions in the US and Germany, Thomas Winkelmann launched his career at the Lufthansa Group in 1998, where he was initially responsible for South America and the Caribbean. From 2000 to 2006 he was Vice President responsible for North and South America. From September 2006 to October 2015, he was CEO of Deutsche Lufthansa AG's low-cost subsidiary, Germanwings. Following the announcement that Germanwings is to be integrated into Eurowings, Thomas Winkelmann was appointed Chief Executive Officer of the Lufthansa Group's hub in Munich. Mr Winkelmann is married, has two children and lives in Berlin.

Non-Executive Directors

DR HANS-JOACHIM KÖRBER

Chairman of the Board of Directors

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

JAMES HOGAN

Vice Chairman of the Board of Directors

Born in 1956 in Melbourne, Australia. Mr Hogan was the President and Chief Executive Officer of Etihad Airways, the national airline of the United Arab Emirates, from October 2006 to May 2016, when he was appointed Etihad Aviation Group President and Chief Executive Officer. Prior to joining Etihad, he held senior executive and board positions at Hertz, bmi British Midland and Forte Hotels in Asia and Europe. From 2002 to 2006, he was President and Chief Executive of Gulf Air, Bahrain. He is a former member of the UBS Industrial Board, a Fellow of the Royal Aeronautic Society, a member of the International Air Transport Association (IATA) Board of Governors and Vice Chairman of the Executive Committee of the World Travel and Tourism Council (WTTC). Mr Hogan is a Non-Executive Director of Air Berlin PLC and has served as Vice Chairman of the Board of Directors since 24 January 2012.

JOACHIM HUNOLD

Co-Vice Chairman of the Board of Directors

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

ANDRIES B. VAN LUIJK

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

JAMES RIGNEY

Born in 1967 in Melbourne, Australia. Mr Rigney was the Chief Financial Officer of Etihad Airways, the national airline of the United Arab Emirates, from October 2006 to May 2016, when he became Group Chief Financial Officer of the Etihad Aviation Group. Prior to this, he held numerous senior executive and board positions at KPMG, the Ansett Group and Gulf Air. Mr Rigney is a chartered accountant and holds a Bachelor's degree and Master of Business Administration (MBA) from the RMIT University in Melbourne. He has been a Non-Executive Director of Air Berlin PLC since 24 January 2012.

ALI SABANCI

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

JOHANNES ZURNIEDEN

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

THE MANAGEMENT BOARD

Thomas Winkelmann
Chief Executive Officer
(CEO)

Dimitri Courtelis
Chief Financial Officer
(CFO)

Götz Ahmelmann
Chief Commercial Officer
(CCO)

Oliver Iffert
Chief Operations Officer
(COO)

Neil Mills
Chief Transformation
Officer (CTO)

Dr Martina Niemann
Chief People Officer
(CPO)

THOMAS WINKELMANN

Chief Executive Officer (CEO)

As CEO, Thomas Winkelmann is responsible for the airberlin group's companies and brands. Mr Winkelmann's biographical details are set out on page 7.

DIMITRI COURTELIS

Chief Financial Officer (CFO)

Born in 1981 in Johannesburg, South Africa graduated from the University of South Africa (UNISA) with a bachelor of commerce degree in Accounting Sciences, is a qualified chartered accountant (ICAA) and certified fraud examiner (ACFE). Mr Courtelis began his career in 2000 as an external auditor in South Africa. In 2006 he joined Ernst & Young in Australia specialising in Transaction Advisory Services. From 2009 to 2011 he was employed at Deloitte in Dubai, again in the Transaction Advisory and Forensics division. Thereafter he joined Etihad Airways in Abu Dhabi. Mr Courtelis was appointed Chief Financial Officer of Air Serbia in 2013, where his key focus was the airline's successful turnaround. The financial and aviation expert then assumed the position of Deputy Chief Financial Officer at Air Berlin PLC in November 2015. He was appointed Chief Financial Officer (CFO) of Air Berlin PLC on September 15, 2016.

GÖTZ AHMELMANN

Chief Commercial Officer (CCO)

Born in 1971 in Kiel, Germany. Mr Ahmelmann has held several management positions at the Lufthansa Group with his most recent position as Vice President Sales and Services Europe responsible for the Lufthansa Group's sales activities in 45 countries and ground handling at more than 100 airports. From July 2014 to May 2015, he was Chief Commercial Officer (CCO) of Air Berlin PLC and then moved to Etihad Airways, where he successfully managed certain sales projects with the Etihad Airways partner airlines. Since 1 March 2017, Götz Ahmelmann returned as CCO to Air Berlin PLC.

OLIVER IFFERT

Chief Operations Officer (COO)

Born in 1970 in Pforzheim, Germany. Mr Iffert began his career in 1997 as a First Officer at former LTU (today airberlin) and was employed at LTU until 2004. He then joined Etihad Airways where his most recent position was Vice President of Flight Operations. Mr Iffert brings more than 20 years of commercial flight experience. On 1 March 2016, Oliver Iffert was appointed Chief Operations Officer (COO) of Air Berlin PLC in charge of Flight Operations, Cabin Crew, Network Operations, Airport Operations and Maintenance Systems.

NEIL MILLS

Chief Transformation Officer (CTO)

Born in 1971 in Pretoria, South Africa. Mr Mills started his career with easyJet in 1997. In 2009, he was appointed Chief Financial Officer of flyDubai, one of the world's fastest growing low-cost carriers. He then joined Spice Jet in India as Chief Executive Officer and managed the airline's subsequent three-year period of strong growth. Mr Mills most recent position was as Chief Executive Advisor at the Philippine Airlines Group where he managed its turnaround. He was appointed Chief Strategy & Planning Officer (CSPO) of Air Berlin PLC on 1 March 2016 and from 3 April 2017 assumed the position of Chief Transformation Officer (CTO) with responsibility for, inter alia, the implementation of strategy and transformation for the new airberlin core business.

DR MARTINA NIEMANN

Chief People Officer (CPO)

Born in 1964 in Duisburg, Germany. Ms Niemann studied at the Free University (Freie Universität) of Berlin and graduated with a diploma in economics. She went on to hold a management position at a private equity company and subsequently spent two years at the Lufthansa Group before joining the Kaufhof Group as Director of Controlling for the travel agency segment. She has held various management positions at Deutsche Bahn AG since 1995, including Director of Human Resource Reporting and Human Resource Management and the group's labour market. Her most recent position was Head of the Remuneration and Welfare Policy Department. Ms Niemann was appointed Chief Human Resources Officer (CHO) at Air Berlin PLC from 15 February 2012 and, from 3 April 2017, its Chief People Officer (CPO).

THE AIRBERLIN SHARE

The stock markets in 2016 were once again confronted with several political events, not least the referendum in Great Britain. Investors could generally be satisfied with the market's performance in 2016 after some of the indices managed to reach new record highs, particularly in the U.S. After a strong setback at the start of the year, the German leading DAX index also recovered strongly but failed to reach the high achieved in April 2015. The index finished the year almost 7 per cent higher than its level at the end of 2015.

In the 2016 financial year, the airberlin share recorded a year-on-year decline from EUR 0.92 at the end of 2015 to EUR 0.61 at the end of 2016. The shares marked their high for the year at EUR 0.93 on 15 January and their lowest at EUR 0.56 on December 15, 2016. As at 30 December 2016, Air Berlin PLC's market capitalisation was EUR 71.3 million. The Company's free float, as defined by Deutsche Börse AG, was 58.8 per cent as at 30 December 2016 and the market capitalisation of the free float amounted to EUR 41.9 million.

THE AIR BERLIN PLC SHARE

Data as at 31 December 2016	
Share capital	EUR 29,200,127 and GBP 50,000
Total number of issued and fully paid ordinary registered shares	116,800,508
Class	Ordinary registered shares
Nominal value	EUR 0.25
Bloomberg symbol	AB1 GY
Reuters symbol	AB1.DE
ISIN	GB00B128C026
WKN	AB1000
Stock exchanges	XETRA, Frankfurt/Main; regulated unofficial market: Berlin, Düsseldorf, Hamburg, Munich, Stuttgart
Auditing / Accounting standards	IAS/IFRS
Trading segment	Regulated market (Prime Standard)
Primary industry	Transportation and logistics
Industry group	Airlines
Index membership	Prime All Share, Classic All Share
Designated sponsor	Commerzbank AG

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

MAIN SHAREHOLDERS OF AIR BERLIN PLC AS AT 31 DECEMBER 2016

Shareholders	Holding in % of share capital	Change vs. 31 December 2015
Etihad Airways	29.21%	Unchanged
ESAS Holding A.S.	12.02%	Unchanged
Free float according to the definition of Deutsche Börse	58.77%	Unchanged

SHAREHOLDER STRUCTURE BY NATIONALITY IN PER CENT AS AT 31 DECEMBER 2016

Germany	56.35%
United Arab Emirates	29.22%
Turkey	12.10%
Austria	0.69%
Switzerland	0.25%
Liechtenstein	0.03%
Other EU countries / EEA countries	1.03%
Other countries	0.33%

OUTSTANDING BONDS AS AT 31 DECEMBER 2016

Bond	Term	Volume in EUR million	ISIN
8.25 %	2011/2018	225 (150+75)	DE000AB100B4
EUR 6.75 % CHF 5.625 %	2014/2019	252	EUR XS1051719786 CHF XS1051723895

Convertible bond	Term	Volume in EUR million	ISIN
6.0% convertible bond	2013/2019	140	DE000A1HGM38
1.5% convertible bond	2007/2027	4.8 outstanding	DE000A0NQ9H6
8.0% convertible bond	2014/perpetual	300	N/A

On 22 February 2017, airberlin issued a new 8.5% convertible bond in the amount of EUR 125 million maturing in 2019 (ISIN: DE000A19DMC0) as part of an exchange offer for the outstanding 6% convertible bond DE000A1HGM38. Holders of the DE000A1HGM38 convertible bond have exercised this option in the total nominal amount of EUR 41.3 million. In addition to the exchange offer, new convertible bonds with a total nominal value of EUR 83.7 million were also issued. Holders of the 6% convertible bond DE000A1HGM38 exercised their bondholder put option with effect on 6 March 2017 with respect to EUR 93.2 million of principal, resulting in an outstanding principal amount of EUR 5.5 million as of 7 March 2017.

Holders of the 1.5% convertible bond DE000A0NQ9H6 exercised their bondholder put option with effect on 11 April 2017 with respect to EUR 4.6 million of principal, resulting in an outstanding principal amount of EUR 0.2 million as of 12 April 2017.

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

INVESTOR RELATIONS

airberlin provides information about its ongoing investor relations activities, ad-hoc notifications, IR releases, investor and analyst presentations and other mandatory reports and disclosures in a timely manner. This information can be found on the investor relations website at ir.airberlin.com. Interested investors are also invited to contact us directly via the contact form on our homepage or to write us at the following address:

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

STRATEGIC REPORT AND MANAGEMENT REPORT

BUSINESS REVIEW

Financial performance indicators

	2016 vs. 2015 in per cent	2016	2015*	2014*
Revenue (in million euros)	−7.3	**3,785.4**	4,081.8	4,158.4
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Flight revenue per PAX (yields)	−3.8	**115.46**	119.99	117.80
Available / flown seat kilometres (in billion; ASK)	−2.7	**54.34**	55.84	59.03
Total revenue per ASK (RASK; EURct)	−4.7	**6.97**	7.31	7.04
Total costs per ASK (CASK; EURct)	+2.3	**8.19**	7.86	7.54
Revenue passenger kilometres (in billion; RPK)	−2.5	**45.82**	47.01	49.27
Load factor (in per cent; RPK/ASK)	+1.0**	**84.3**	84.2	83.5
Destinations (as at 31 December)	−2.2	**135**	138	147
Number of aircraft at year-end (operational fleet)	−9.2	**139**	153	149

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** percentage points

Definitions of performance indicators: See Glossary section on page 164

Company profile

COMPANY STRUCTURE AND BUSINESS ACTIVITIES

Air Berlin PLC (the "Company") is the legal parent company of the airberlin group. Incorporated in England and Wales, its registered office is located in London. The Company's legal form is that of a public limited Company (PLC) and is managed accordingly by a unitary Board. The Board is comprised of executive and non-executive directors. The composition of the Board during the 2016 financial year is presented on page 51. The composition of the Management Board is presented on page 54 and changes in the composition of the Board and the Management Board during the 2016 financial year are listed on pages 51 and 54. The Company's head office and the members of the Management Board are based in Berlin, Germany.

The aviation subsidiary Air Berlin PLC & Co. Luftverkehrs KG is an international airline and a member of the International Air Transport Association (IATA).

At the end of the third quarter of the reporting year 2016, the Company initiated a fundamental restructuring and realignment of its business model (detailed information on this programme is presented in the following section "Business Model and Strategy" on page 16). In December 2016, as part of this programme, airberlin (i) entered into a wet lease agreement with the Lufthansa Group under which Air Berlin PLC & Co. Luftverkehrs KG will provide up to a total of 38 aircraft of the A320 family together with cockpit and cabin crew to Eurowings GmbH and Austrian Airlines AG and (ii) entered into an agreement for the sale of all of the shares it indirectly holds in NIKI Luftfahrt GmbH to Etihad Investment Holding Company LLC. Regulatory approval for the Lufthansa Group transaction has been granted.

At the end of the 2016 reporting year, the airberlin group employed a total of 8,481 employees and operated a fleet of 139 aircraft. It carried 28.9 million passengers in 2016.

SAFETY AND SECURITY MANAGEMENT

Safety on the ground and in the air is an absolute priority at airberlin. Safety is practised daily by all employees in all areas. We have defined processes for uncovering potential hazards and events to help us identify risks early on that are then evaluated and analysed as part of a risk management system. This gives us the chance to identify and correct potential hazards at an early stage before they become serious.

The airberlin group's security management has access to an international network of security agencies, partner airlines and private security companies to monitor the global threat situation and its development. The destinations served by the airberlin group and the Company's security measures are certified through regular on-site safety inspections. The aviation security measures taken by the airberlin group meet stringent national and international air carrier requirements and are also checked and confirmed by regular quality audits and IATA Operational Safety Audits (IOSA). With the help of the security management system (SEMS), events are analysed at an early stage so that we can respond proactively to any potential danger and react quickly and efficiently to any incidents.

BUSINESS MODEL AND STRATEGY

The new airberlin: Comprehensive Realignment of the Business Model

In recent years the historic business model of airberlin has limited the airline's ability to compete effectively. The single platform strategy serving multiple market segments from numerous stations across the GSA region (German Speaking Areas Germany, Austria, and Switzerland) suffered from high seasonality and low productivity driving structural inefficiencies.

Hence, in summer 2016 management undertook a full scale review of the existing business model and announced a new strategy on 27 September which will result in a fundamental transformation of the business. airberlin has been through many restructuring programmes in the past but these never truly addressed the underlying issues.

As part of the structural network redesign, reducing seasonality was key, leading to a reduced aircraft requirement with the Company focusing on scheduled, year round operations. In order to ensure a sustainable restructuring, minimising otherwise associated restructuring costs, management has successfully negotiated two strategic transactions:

- A wet-lease agreement for the operation of up to 38 A320 family aircraft to the Lufthansa Group under a six-year ACMIO (Aircraft Crew Maintenance, Insurance, Overhead) agreement, with the first aircraft operating under this arrangement from February 2017. Currently, 35 of the total of 38 contracted aircraft are now in service. The remaining 3 aircraft are expected to be in service by the start of the summer season 2018. As is industry standard, under an ACMIO arrangement, airberlin agrees to provide cockpit and cabin personnel, technical maintenance, insurance and overhead in exchange for payment of a minimum guaranteed rent. The agreement reached provides for significant planning certainty and allows airberlin to reduce excess capacity and limit restructuring costs.

- Touristic operations are by nature seasonal. With the sale of the Company's European and North African touristic business including its indirectly held shares in its subsidiary NIKI to Etihad Investment Holding the Company will dispose of this volatile business. This transaction was announced on 5 December 2016 and is anticipated to be completed during the second quarter of the current financial year. Etihad Investment Holding will not hold a majority stake in, and will not gain effective control over, NIKI, but intends to contribute the shares to a new airline group the majority of which will be controlled by European owners. This airline group could potentially lead to a combination of Germany's TUIfly and airberlin's tourism business, the latter with 35 aircraft, including 14 aircraft currently operated by TUIfly for airberlin group under a wet lease agreement. As a consequence of this arrangement, the current wet lease agreement with TUIfly will be terminated. These measures will result in a further reduction of airberlin's fleet size by an additional 21 aircraft and have generated upfront cash inflows required for restructuring.

The above mentioned initiatives will help to achieve a lean, right-sized business a key for new airberlin.

Key to airberlin's future sustainability is the reduction in the complexity of the airberlin business model which in turn maximizes the efficiency of operations thereby achieving a corresponding significant reduction in costs – particularly staff, maintenance and leasing costs. This effort will be supported to a large extent by concentrating all our administrative functions in Berlin.

Underpinning the new airberlin is a robust network. With the disposal of the European and North African touristic business, new airberlin will focus on a dual hub strategy from Berlin and Düsseldorf. airberlin will enhance and expand the current long-haul network through increased frequencies and new routes as well as higher yielding routes. On short- and medium-haul routes, airberlin will provide daily frequencies to enhance customer choice and become increasingly attractive to the business customer segment while in parallel building strong feed for the long haul hub flying. Demand in this segment is less seasonal and creates predictability within the network that will drive operational robustness. The key network focus will include Italy, Scandinavia and Eastern Europe, although airberlin also intends to expand its market share in attractive German domestic routes for business customers.

Through these structural schedule changes, significant improvements will be made in the year round utilisation of the fleet. Nevertheless, airberlin will maintain flexibility within its operations to be able to react to market changes and capitalise on opportunities.

The new network and new long-haul destinations, such as Orlando, San Francisco and Los Angeles, were announced in 2016 and are launching in May and June of the current financial year. In line with the strategy to move towards more daily services, flight frequencies to several attractive long-haul destinations such as New York were increased, and new codeshares to New Zealand have been established with Etihad Airways Partners member airlines.

From a fleet perspective, three Airbus A330 aircraft will be placed into operation during the first half of the current financial year, completing the consistent dual class product with lie flat beds in business class. The restructuring and harmonisation of airberlin's fleet of narrow-body aircraft has been completed on budget and on schedule, meaning airberlin now operates an Airbus only narrow body fleet. As airberlin continues to expand consumer choice, the airline also offers its "buy on-board" service and a business class on short- and medium-haul flights. As a consequence of the reduction bases and the concentration at the hubs Berlin and Düsseldorf crew productivity will be increased and operating costs reduced.

The historic airberlin operation was geographically disparate and activities were split across multiple departments and locations. The new network will create an opportunity to reshape the fundamentals of the business and to create an efficient operational platform.

The core principles include:

- Centralization of all operationally related functions in Berlin
- Consolidation of workforce and a high level of automation
- Consolidation of IT systems under a single platform philosophy
- Reduction of complexity and process simplification
- Operational stability/resilience through integration of functions and forward looking decision making
- High level of standardization in product delivery

From a people perspective, the new airberlin organisation – after the planned disposal of NIKI and the European and North African touristic business, the wet lease agreement with the Lufthansa Group and after the successful implementation of its new business model – will be leaner. In line with the streamlining of the operation there will be a significant headcount reduction across maintenance and headquarters. Currently, these measures are on target to achieve the head count reduction by December 2017.

Value-based management

The airberlin group will practice a clear, value-based management approach independent of the Company's comprehensive realignment. As a result of this programme and the Company's leaner, less complex structure, the potential for higher profitability, greater cash flow, more liquidity and a reduction in debt will increase.

Indicators such as average fares (yields) from ticket sales and other flight-related services per passenger are the focus of operational management. airberlin will further develop its customised IT-based revenue and yield management system so that it can increase yields systematically. Other important operating performance indicators include revenue per ASK (RASK) and cost per ASK (CASK). The fleet load factor is measured as a ratio of revenue passenger kilometres (RPK) and available seat kilometres (ASK). The key results-oriented operational performance indicator remains EBITDAR (earnings before interest, taxes, depreciation, amortisation and rent), which represents the profit before interest, taxes, depreciation and amortisation and leasing costs for aircraft. EBITDAR is generally used in aviation as it provides the most appropriate comparison, regardless of whether the airline purchases and depreciates or leases its aircraft and pays rent.

Clear focus on customer service

The new airberlin will continuously develop and enhance its product offerings and customisation in line with customer preferences and the current trends. At the centre of this strategy is creating the most optimised price structure based on current market trends as is the most efficient generation of additional flight-related revenues.

The continuous enhancement of airberlin's services is another key element of its customer focused sales strategy. Accordingly, airberlin focuses on maintaining as much contact as possible with customers using all of the Company's available sales and distribution channels. airberlin flights can be booked via travel agents, tour operators or with a simple phone call to airberlin's 24/7 call centre. Our online offers, such as those on our service-friendly airberlin website and our mobile.airberlin.com mobile website and our airberlin App are particularly popular. Boarding passes can also be stored electronically, saving paper.

A number of standardised products such as Web check-in, MMS check-in, priority check-in for premium travellers and the option to change flights up to two hours before departure, provide passengers with additional services both on-board and on the ground. Passengers can also purchase snacks and hot and cold beverages on all routes. Customer complaints submitted via our online contact form are generally acknowledged within 24 hours.

Additional services can be purchased or pre-ordered separately as desired. Fast, high-performance WIFI and airberlin's inflight entertainment are available on several routes using the airberlin connect app. On short- and medium-haul routes, passengers can select a variety of hot and cold gourmet menus provided in cooperation with the Sansibar restaurant on the island of Sylt or choose their preferred seat and on long haul flights economy class guests have the opportunity to book XL seats. All passengers in business class are offered a broad range of products.

Sophisticated business class passengers enjoy airberlin's extensive airberlin premium service before, during and after the flight. This service includes access to exclusive lounges at many German and international airports – including more than 650 **one**world® premium lounges – a tremendous level of comfort offered by multi-functional seats with relax and completely flat reclining positions with multi-level massage functions and a comfortable length on the long haul. On flights from, via and to Abu Dhabi, passengers have access to a complimentary chauffeur service provided by airberlin and Etihad Airways. Extensive on-board shopping is customary on all airberlin flights.

Reliability is also one of the most important signs of a quality airline. In 2016, airberlin operated 98.8 per cent of its scheduled flights (previous year: 99.5 per cent; the decline in the reporting year is a result of the strikes carried out at other airlines flying on behalf of airberlin). This top level, known as the "regularity indicator" demonstrated that airberlin is one of Germany's most reliable airlines.

topbonus: Dual awards for the collection and redemption of miles

In 2016, the readers of Manager Magazine voted airberlin's topbonus programme the best frequent flyer program in the category of mileage collection. According to a study conducted by the enterprise travel platform "Switchfly", topbonus was the programme in 2016 with the highest seat availability for premium flights in Europe for the fifth consecutive year. airberlin's successful, multi award-winning topbonus frequent flyer programme cooperates with 25 partner airlines and roughly 200 partners, including hotels, rental car companies, rating platforms, American Express, Shell and over 500 online shopping portals. What is more, the airberlin VISA card is the only frequent flyer credit card that allows holders to collect valuable status miles with its use. A new online hotel portal that has partnered with booking.com offers participants at least 1,000 miles for every night booked. The number of topbonus members worldwide is now growing at a rate of around 1,000 participants per day and has been for the past two years.

A total of 4.3 million members during the reporting year took advantage of the exclusive benefits offered by this programme: in 2015, the total was less than 4 million. topbonus members can collect status miles for a number of special benefits on all flights operated by airberlin, NIKI, Etihad Airways partner airlines and our **one**world® partners as well as for transactions using the airberlin VISA card. Participants can also earn award miles with all partners to be redeemed for premium and complimentary flights worldwide – also for companions – as well as for business class upgrades, and purchases in our extensive online awards shop. topbonus Ltd. is an independent company with a 70 per cent interest held by the Etihad Group and the remaining 30 per cent held by airberlin.

Our focus: Business travellers and corporate customers

The rapidly growing business and corporate customer segment is of significant strategic importance for airberlin. The Company has been winning new business customers with its exclusive business class offers, particularly in the long-haul segment. This success has inspired us to focus intensively on this target group with our innovative solutions including better comfort and service. Among others, corporate customers also have access to the right products through their favourite booking channels.

The advantages airberlin offers its corporate customers are comprised under the brand "airberlin business benefits" and bundled into three benefit programmes:

- "Business Points": the proven and ever-evolving small and medium enterprise (SME) programme with no minimum requirements. By the end of 2016, almost 19,000 companies were enrolled in the Business Points programme – a year-on-year increase in new members of 10 per cent.

- "Business Pro": targets "Best Buy" focused companies and, among others, allows customers to rebook even FlyClassic fares free of charge. A total of 253 companies were enrolled in the Business Pro programme at the end of the 2016 reporting year.

- "Business Prime": this corporate rate model offering even greater flexibility and more attractive fares. A total of 674 companies were using Business Prime by the end of 2016.

airberlin's extensive range of tailorable services targeted at small and medium enterprises (SMEs) was also very successful during the 2016 financial year. The Business Points benefit programme ("BP") has enjoyed many years of strong growth. In the past seven years, the number of companies in this programme has risen 24 per cent on average for a total of 18,711 members (2015: 17,029; 2014: 14,847). BP will continue to be improved and expanded given its proven success and the significance of the SME segment for airberlin. For many years, BP members have been able to collect points and redeem these points for upgrades at selected airlines such as Etihad Airways, Air Serbia, Virgin Australia, Darwin Airline, Air Bulgaria and Alitalia. A dedicated sales team assists SMEs in Germany, and an external B2B service provider supports our customers in the important Austrian market.

Information on "airberlin business benefits" and the related corporate benefit programmes can be found on the Company's website at www.airberlin.com/businessbenefits. New solutions and offers are continually developed to give corporate clients full access to the broader range of benefits on the Web with even more functionality. At the same time, airberlin will remain a close partner of corporate travel agencies, travel management service providers and providers of online booking systems.

Close international cooperation

airberlin has an excellent network that includes numerous international airlines with which airberlin has close collaborations and code share agreements. These relationships were systematically expanded in 2016 with 23 codeshare partners (previous year: 21) offering a worldwide route network for passengers. The partnerships included airberlin's close strategic cooperation with Etihad Airways and the Etihad Airways Partners, airberlin's membership in the global **one**world® alliance and the codeshare agreements with other carriers.

At the end of 2016, airberlin had codeshare partnerships with Etihad Airways (the national airline of the United Arab Emirates); American Airlines; Alitalia; Iberia; Russia's S7 Airlines; Finnair; British Airways; Air Serbia (the national airline of the Serbian Republic); Virgin Australia; Air Seychelles; Pegasus Airlines (Turkey's largest private airline); Air Baltic; Czech Airlines; Britain's flybe; Royal Jordanian; SriLankan Airlines; India's Jet Airways; Japan Airlines; Bulgaria Air; Thailand's Bangkok Airways; Hainan Airlines (China's fourth largest airline); Italy's Meridiana Fly and the Swiss regional airline Etihad Regional operated by Darwin Airline.

The partnership agreements give passengers access to a number of destinations beyond those offered by airberlin. These collaborations also help to sustain high utilisation rates with reduced seasonal fluctuations. On long-haul flights, traffic to the Middle East, Asia and Australia is at the forefront of the strategic cooperation with Etihad Airways, while the partnerships with the airlines of the **one**world® alliance focus on transatlantic traffic.

Strategic cooperation with Etihad Airways

airberlin's extensive partnership with Etihad Airways has been in place since the end of 2011 and encompasses an ideal blend of the airlines' complementary route networks. In the past, both airlines continually improved their network for the benefit of their passengers. In both 2015 and 2016, airberlin and Etihad Airways welcomed together more than 700,000 passengers compared to over 600,000 passengers in 2014 and 560,000 in 2013.

In 2016, the joint route network spanned 220 destinations in 80 countries (2015: 216 destinations in 81 countries) and the portfolio comprised 127 codeshare routes (2015: 107) worldwide. airberlin's passengers benefit especially from the high number of connections available to Asia, the Middle East and Australia from Etihad Airways' hub in Abu Dhabi. In return, Etihad Airways passengers gain access to airberlin's European network. Six airports in the DACH region give European passengers access to 70 weekly codeshare flights to and from Abu Dhabi (as at April 2017).

In addition to the cooperation with Etihad Airways, airberlin has other close co-operations with the Etihad Airways Partners. These co-operations include those with Alitalia, Jet Airways, Air Serbia, Air Seychelles and Etihad Regional. This offers travellers a combined route network of over 400 destinations on six continents. A high standard of comfort and warm hospitality both on the ground and in the air fulfil the promise of a memorable experience, regardless of which airline passengers fly. In 2016, a total of 1,430,000 passengers flew with a member airline of the Etihad Airways Partners.

oneworld® global alliance

airberlin has been a member of the **one**world® global alliance since 2012. The alliance includes numerous well-known international airlines including American Airlines, British Airways, Cathay

Pacific, Finnair, Iberia, Japan Airlines, LATAM, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian, S7 Airlines, SriLankan Airlines and several affiliate members including Cathay Dragon, LATAM Argentina, LATAM Colombia, LATAM Ecuador, LATAM Express and LATAM Peru.

Together, the **one**world® airlines offer a first-rate, seamless travel experience. Passengers receive special privileges and frequent flyer benefits and can earn and redeem miles and points throughout the alliance's entire route network. With **one**world®, airberlin's customers also gain access to a global route network with more than 1,000 destinations in over 150 countries. In 2016, more than 1,000,000 passengers flew with airberlin and its **one**world® partners.

ECONOMIC CONDITIONS

Macroeconomic developments

Over the last five years, global economic growth has been hovering at a disappointing level of about three per cent p.a. In the future, however, private sector economic activity may see a boost from an expansive fiscal policy. With the new US administration in office a dramatic change in the country's macroeconomics could set off and influence the prospects for growth and inflation in the United States and other economies. Current economic stimulus packages in China are also projected to increase demand and ultimately the growth of the world economy. In light of these potential developments, the OECD's economic outlook published in November 2016 projects a moderate acceleration in global economic growth to 3.5 per cent by 2018. The IMF's recent "Economic Update" from October 2016 also forecasts a slight acceleration in growth from 3.1 per cent to 3.4 per cent in 2017. The OECD expects growth in the emerging market economies to vary. Growth overall is projected to gradually pickup over the next two years as the recessions in Brazil, Russia and other commodity-based countries start to dissipate.

The OECD expects economies in advanced countries to receive continued economic support from macroeconomic policies and stable prices. Stronger growth is only to be achieved through a lasting increase in wage growth and corporate investment. Assuming fiscal stimulus in the U.S., the OECD projects average GDP growth to rise from 1.75 per cent in 2016 to just over 2.25 per cent in 2018. The IMF is even slightly more optimistic.

The effect of Brexit is unclear since the future of institutional and trade relationships between Great Britain and the EU is still uncertain. The outlook for the United Kingdom appears much less favourable than before the referendum decision to leave the EU. The OECD now expects growth of just 1.25 per cent in 2017 and 0.96 per cent in 2018. The IMF is more optimistic for the United Kingdom projecting slightly higher growth of 2.00 per cent in 2017 and 1.5 Per cent in 2018. Whereas the IMF is expecting a slightly higher year-on-year growth of 1.4 per cent in France for 2017, Italy cannot seem to break free from its disappointing growth trend and growth is projected to even drop to 0.8 per cent in 2017from 0.9 per cent in 2016. Spain is not expected to be able to maintain the growth rates of the past two years, and growth is expected to reach just 2.6 per cent in 2017 after 3.2 per cent in the previous year.

According to estimates of the German Statistical Office, real GDP growth in Germany was 1.9 per cent in 2016, or slightly higher than in 2015 (+1.7 per cent). The IMF also expects the German economy to lose momentum in 2017 and grow by just 1.6 per cent, mainly as a result of a lower number of working days. In contrast, rising incomes and the robust labour market coupled with low inflationary pressure provide a favourable economic environment for private households. German domestic demand is also supported by the strong financial situation of the public budget, allowing for higher government spending and investment. Capital investment is expected to grow as a result of higher foreign demand and a slightly above-average capacity utilisation.

The airline industry

According to the International Air Transport Association (IATA), which has 265 members representing 83 per cent of international air traffic, global passenger traffic demand – including non-IATA member airlines – grew 6.2 per cent in 2016 (2015: 6.5 per cent) measured by passenger kilometres flown (RPK). RPK thus stabilised at a high level despite the ongoing weaker global economic development overall. RPK has grown only 5.5 per cent on average for the past ten years. International traffic increased 6.7 per cent in the reporting year (previous year: 6.5 per cent) and again exceeded the demand for domestic flights (5.7 per cent versus 6.3 per cent in the previous year). IATA attributes the overall positive trend in the reporting year to the sharp acceleration in demand in the second half of the year from the moderate economic recovery and less uncertainty on the part of passengers due to the global crisis. Capacity in 2016, measured by available seat kilometres (ASK), increased by a total of 6.2 per cent (previous year: 5.6 per cent). As a result, capacity utilisation rose slightly from 80.3 per cent to another record high of 80.5 per cent after the sharp increase in the previous year.

As in previous years, regional performance in 2016 varied strongly. There was renewed strong growth in domestic and international air traffic in the Middle East (11.2 per cent compared to 11.6 per cent in the prior year) and the Asia Pacific region (9.2 per cent compared to 8.1 per cent in the prior year). The mature North American market grew 3.2 per cent compared to 4.3 per cent in the prior year. RPK in Europe recorded another year of below-average growth and at first glance appeared to have lost significant momentum rising just 4.6 per cent compared to 5.8 per cent in the previous year. There was a mixed picture in terms of performance in 2016, particularly in Europe. The generally better economic environment in the second half of the year led to a strong pickup in demand, which has been growing at an annualised rate of 15 per cent as of June. European carriers expanded their capacity by 4.4 per cent in 2016 (previous year: 3.9 per cent), which drove their utilisation up to 82.4 per cent compared to 81.7 per cent in the prior year.

OPERATING DEVELOPMENT

Route network and fleet

airberlin's long-haul network was further strengthened in the summer of 2016 by the addition of three new high-frequency destinations – San Francisco, Boston and Havana – from airberlin's hub in Düsseldorf. The connection from Düsseldorf to the Los Angeles International Airport was increased to a daily service. These new destinations and higher frequencies increased the number of the available seat kilometres (ASK) to North America by 17 per cent. In November 2016, airberlin introduced a connection to Punta Cana in the Dominican Republic, which is offered three times a week from Berlin. airberlin also launched new short- and medium-haul routes out of Düsseldorf to Stockholm, Bologna and Geneva in order to strengthen its feeder traffic. By increasing frequencies, several existing destinations, such as Düsseldorf to Venice, Florence and Barcelona and Berlin to Budapest, expanded their offers to up to three flights daily.

The Company completed the fleet restructuring to an all Airbus narrow body fleet with the final revenue flight on a Boeing taking place on 28 October 2016. Only the 14 Boeing 737 aircraft currently operated by TUIfly under a wet lease arrangement continue to operate for the airberlin group. Another significant milestone that was realised in 2016 was the completion of the retrofitting of all wide body aircraft; all Airbus A330 aircraft now have a consistent dual class configuration including lie flat beds in business class. As of the end of the reporting year, the airberlin group operated a total of 139 aircraft.

Under the new airberlin business model, and as more particularly outlined in the strategic overview section of this document, the airberlin fleet will comprise a total of 115 aircraft. 75 aircraft including 17 Airbus A330s, 40 Airbus A320s and 18 Bombardier Q400 regional aircraft operated for new airberlin under a wet lease arrangement with LGW will be operated under the airberlin designator code. 38 aircraft are operated under a wet lease agreement with members of the Lufthansa Group and 35 aircraft (including the 14 TUIfly wet lease aircraft) are operated under the NIKI designator code as part of the touristic business.

Capacity was also reduced on schedule with the total number of seats in 2016 declining 4.0 per cent to 35,644,508 compared to 37,130,933 in the prior year. airberlin also systematically adjusted its route network and frequencies in 2016, eliminating flights that were relatively unprofitable or no longer a good strategic fit. These adjustments brought down the number of flights in the reporting year by 2.9 per cent to 217,243 compared to 223,646 in the prior year. Available seat kilometres (ASK) declined 2.7 per cent from 55.8 billion in the previous year to 54.3 billion. The average flight distance increased 1.4 per cent compared to the previous year whereas flight hours declined 2.4 per cent from 409,978 in the previous year to 400,125 in the reporting year.

Passenger volume and yields

In the 2016 financial year, the number of passengers (PAX) declined by 4.4 per cent to 28,920,991 passengers compared to 30,249,263 passengers in the prior year. The number of revenue passenger kilometres (RPK) also recorded a decline of 2.5 per cent from 47.0 billion to 45.8 billion. The decline in RPK was slightly lower than the decline in ASK, which fell by 2.7 per cent from 55.8 billion in 2015 to 54.3 billion in the reporting year. Utilisation measured by the seat load factor (RPK/ASK) increased accordingly by 0.1 percentage points to 84.3 per cent following a level of 84.2 per cent in the prior year.

Yields declined in the 2016 financial year as a result of sharper price competition. Flight revenue per PAX (including taxes and security fees) fell 3.8 per cent from EUR 120.0 in the previous year to EUR 115.5 in the reporting year. The decline in total revenue per PAX was limited to 3.0 per cent (EUR 130.9 compared to EUR 134.9 in 2015). As in the previous year, the success of airberlin's attractive supplementary flight-related offers had a positive impact with revenue per PAX increasing 20.1 per cent year-on-year from EUR 6.31 to EUR 7.58. Total revenue per ASK was lower at 6.97 eurocents compared to 7.31 eurocents, representing a 4.7 per cent decline. Total revenue per RPK declined 4.8 per cent and amounted to 8.26 eurocents compared to 8.68 eurocents in 2015.

CASK, the cost per ASK at the EBIT level (including other operating income), grew by 4.3 per cent from 7.86 eurocents in the prior year to 8.19 eurocents in 2016. The reporting year's figure was affected by renewed restructuring expenses and other one-time expenses, as well as by the strong US dollar, which more than offset the positive effects of the lower average oil price. Fuel expenses per ASK in the reporting year were 27.1 per cent lower, falling from 1.66 eurocents to 1.21 eurocents.

Key flight-related figures (as at 31 December)

	2016 vs. 2015 in per cent	2016	2015
Aircraft at the end of the reporting period (operational fleet)	–9.2	**139**	153
Flights	–2.9	**217,243**	223,646
Destinations	–2.2	**135**	138
Capacity (thousands of seats)	–4.0	**35,645**	37,131
Passengers (thousands; PAX)	–4.4	**28,921**	30,250
Load factor (per cent; RPK/ASK)	+0.1 %- points	**84.3**	84.2
Available / flown seat kilometres (bn; ASK)	–2.7	**54.34**	55.84
Revenue passenger kilometres (bn; RPK)	–2.5	**45.82**	47.01
Number of block hours	–2.2	**457,883**	468,389
Average length per destination (km)	+1.4	**1,525**	1,504

The fleet of the airberlin group

	Number at the end of	
	2016	2015
A319	**11**	9
A320	**59**	57
A321	**21**	23
A330-200	**14**	14
B737-700	**5**	6
B737-800	**9**	25
Q400	**20**	17
Saab 2000	**0**	2
Total	**139**	153

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

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

The fundamental reformulation of the new airberlin business model, which was launched in the second half of 2016, profoundly shaped the group's figures in the reporting year. The statement of financial position, in particular, shows significant structural changes and the income statement reflects high extraordinary charges due to impairments.

The group's total assets as at 31 December 2016 declined 2.5 per cent versus the prior year's balance sheet date (from EUR 1,418.4 million to EUR 1,382.6 million). Non-current assets declined 34.5 per cent to EUR 458.4 million, which included a 34.9 per cent decline in property, plant and equipment to EUR 119.1 million. The carrying amount of all aircraft and engines at the end of the 2016 financial year was EUR 0.0 million compared to EUR 55.6 million as at the prior year's reporting date. airberlin sold all of its remaining owned aircraft in the reporting year and by the end of the 2016 financial year was operating solely with leased aircraft. At EUR 924.1 million, current assets were 28.6 per cent above their level in the prior year. Current assets contained cash and cash equivalents of EUR 220.3 million after EUR 165.2 million at the end of the 2015 financial year.

The group's equity declined as a result of continued price competition in the 2016 financial year and due to the extraordinary expenses incurred during the comprehensive restructuring. Equity was positively affected by the fair value measurement of hedging instruments, which resulted in a positive value of EUR 28.9 million as at the 2016 balance sheet date compared to a negative value of EUR –82.6 million in the prior year. The group's equity totalled EUR –1,470.2 million as at 31 December 2016 compared to EUR –799.4 million at the end of the 2015 financial year. This figure includes EUR 351.7 million (previous year: EUR 325.7 million) of hybrid capital classified as equity.

Non-current liabilities rose by 23.1 per cent to EUR 1,343.6 million compared to EUR 1,091.9 million at the end of 2015. The increase was due to higher financial liabilities (EUR 1,161.0 million compared to EUR 980.9 million), higher provisions (EUR 89.4 million compared to EUR 6.2 million) and higher trade and other payables. The provisions include provisions for onerous contracts of EUR 51.5 million (previous year: EUR 0.0 million). These provisions were recognised for several contracts, the income of which will not cover the future expenses and include, among others, obligations in the amount of EUR 51.1 million from the wet-lease agreement with the Lufthansa Group. The non-current financial liabilities from aircraft financing were reduced to zero for the aforementioned reasons.

Current liabilities from aircraft financing were also reduced completely. Other current financial liabilities rose from EUR 10.2 million in the previous year to EUR 234.8 million as at the 2016 balance sheet date mainly due to the non-current portion of outstanding bonds and the assumption of loan financings. Current provisions also showed a substantial increase from EUR 47.4 million to EUR 89.9 million, mainly for the reasons described above. Current liabilities increased overall to EUR 1,509.2 million as at 31 December 2016 compared to EUR 1,125.9 million at the end of the 2015 financial year. The sum of current and non-current financial liabilities as at the 2016 balance sheet date was EUR 1,395.8 million compared to EUR 991.1 million in the previous year. At the end of the reporting year, advance payments received amounted to EUR 573.0 million and were well above the previous year's level (EUR 373.9 million). Net debt in the 2016 financial year rose to EUR 1,175.5 million compared to EUR 877.9 million in the previous year.

The operating cash flow in the year under review was EUR –373.5 million compared to EUR –151.1 million in the previous year. The main adjustments to the result for the period for the reconciliation to the operating cash flow included – on the decreasing side – lower depreciation/amortisation, an increase in other assets and deferred expenses (compared to a positive adjustment in the previous year), a lower net change from the increase in trade receivables and payables as well as deferred taxes. Main adjustments increasing the operating cash flow included disposals in cause of business restructuring, losses on the disposal of long-term assets, an increase in other current liabilities, a sharp rise in provisions, and higher net interest expenses. After taking into account income taxes paid and net interest paid totalling EUR –98.5 million (previous year: EUR –86.8 million), net cash flow from operating activities amounted to EUR –472.1 million compared to EUR –237.9 million in the previous year.

Cash flow from investing activities amounted to EUR 238.8 million in the reporting year compared to EUR 198.9 million in the previous year. This increase is mainly attributable to the proceeds received in advance on the sale of touristic business amounting to EUR 205.0 million. In addition, lower investments and advance payments in non-current assets led to an increase of the cash flow from investing activities. On the opposite, aircraft sales, which fell from EUR 278.9 million in the previous year to EUR 78.3 million in the year under review lowered cash inflows.

Cash flow from financing activities showed cash inflows of EUR 309.1 million in the reporting year after outflows of EUR –60.9 million in the previous year. Principal payments on financial liabilities amounting to EUR 261.4 million (previous year: EUR 267.2 million) were offset by the assumption of financial liabilities in the amount of EUR 572.6 million (previous year: EUR 402.2 million).

After foreign exchange effects on cash balances, the inflow of cash and cash equivalents in 2016 amounted to EUR 75.9 million (previous year: outflow of EUR –99.9 million). At the end of the reporting year, net cash and cash equivalents including cash and cash equivalents allocated to assets held for sale amounted to EUR 243.9 million after starting the year at EUR 165.2 million.

Results of operations

Group revenue in the 2016 financial year declined by 7.2 per cent year-on-year to EUR 3,785.4 million compared to EUR 4,081.8 million. As mentioned above, the breakdown of revenue types was changed at the end of the reporting year (see note 20). According to the new breakdown, with a 2.5 per cent decline in RPK, flight revenue decreased by 8.0 per cent to EUR 3,339.3 million compared to EUR 3,631.1 million in the prior year. Ancillary revenue rose by 14.8 per cent from EUR 191.0 million in the previous year to EUR 219.2 million in the reporting year. Other revenue fell by 12.6 per cent to EUR 226.9 million compared with EUR 259.7 million in the previous year. Other operating income had risen sharply in the prior year to EUR 50.8 million mainly due to capital gains from aircraft sales. There were no such gains recorded in the reporting year, which caused other operating income to decline again to EUR 7.5 million.

Operating expenses rose slightly from EUR 4,439.5 million in the previous year to EUR 4,460.0 million in the reporting year. Expenses for materials and services were reduced by a total of 8.8 per cent to EUR 2,793.0 million compared to EUR 3,064.3 million in the previous year. Fuel expenses amounted to EUR 660.1 million for a decrease of 29.0 per cent compared to EUR 929.7 million in the previous year. Lease expenses rose by 8.4 per cent to EUR 671.8 million compared with EUR

619.8 million in the previous year. By the end of the reporting year, airberlin was operating solely leased aircraft. The expenses for catering and on-board sales were reduced by 5.2 per cent to EUR 115.0 million compared to EUR 121.3 million in 2015. At EUR 240.3 million, navigation expenses were 7.7 per cent below the previous year's level of EUR 260.4 million. Airport fees and air transportation taxes also declined falling from EUR 838.1 million in the previous year to EUR 820.1 million in the reporting year and from EUR 155.0 million to EUR 146.8 million, respectively. At EUR 138.9 million in the 2016 financial year, the item "others" contained within the cost of materials and services was almost at the previous year's level.

Personnel expenses increased from EUR 589.3 million in the previous year to EUR 624.9 million mainly as a result of special charges from the comprehensive restructuring carried out in the reporting year. The sum of depreciation/amortisation and impairment losses increased to EUR 85.9 million compared to EUR 46.0 million in 2015 due to the impairment of intangible assets mentioned above. Other operating expenses rose by 29.2 per cent to EUR 956.3 million compared to EUR 740.0 million in the previous year. This item also contained extraordinary charges of EUR 50.9 million from the ongoing restructuring.

After net financing cost for the reporting year of EUR –141.0 million compared to EUR –120.5 million the previous financial year the loss before tax increased to EUR –806.9 million after EUR –430.7 million. Including income tax benefits of EUR 25.0 million (previous year: tax expenses of EUR –16.0 million), the result for the 2016 financial year declined to –781.9 EUR million from EUR –446.6 million in the previous year. Including the result of EUR 26.0 million attributable to hybrid capital investors (previous year: EUR 24.3 million), a net result attributable to the shareholders amounted to EUR –807.9 million after a level of EUR –471.0 million in the prior year. Both diluted and basic earnings per share for the reporting year totalled –6.93 EUR after their level of EUR –4.04 in the previous year.

RESPONSIBILITY

Social responsibility

PEOPLE COME FIRST

As an employer, the airberlin group promotes equal opportunity and strives to prevent and eliminate any discrimination on the grounds of ethnic origin, gender, religion, beliefs, disability, age or sexual identity. In light of the general principle of equal treatment in the European Union, all collective guidelines and core personnel processes are continuously reviewed and managers are informed of the relevant legal requirements.

At airberlin, mutual respect and embracing diversity go hand in hand and form the basis of daily coexistence. As an international company, airberlin not only creates mobility across borders but also connects people and cultures around the globe. The airberlin group itself is truly multinational: in the 2016 financial year, the airberlin group employed a staff comprising 66 different nationalities.

Working at airberlin

EMPLOYEES

As at 31 December 2016, the airberlin group employed a total of 8,481 employees, consisting of 4,188 women and 4,293 men, compared to a total of 8,869 employees in the previous year. The average term of employment at the airberlin group is 11.6 years, and the average age of employees is 40.0 years. airberlin employs 1,242 people abroad including 112 in Spain, 304 in Switzerland and 750 in Austria.

At the end of the reporting year, there were 2,662 part-time employees at the airberlin group. Of those, 979 employees took advantage of a work-schedule model with adjusted salaries called a “free month“. The ratio of part-time employees is 30.0 per cent (previous year: 26.9 per cent).

EMPLOYEE STRUCTURE AT AIRBERLIN

	31/12/2016	31/12/2015
Pilots	**1,540**	1,514
Cabin crew	**3,433**	3,412
Technical staff	**1,305**	1,429
Administration/services/others	**2,203**	2,514
Total	**8,481**	8,869

The airberlin group promotes equal opportunity for all employees. This includes gender diversity. The following table presents the composition of the directors, members of the Management Board, senior management and employees according to their gender as at 31 December 2016. airberlin is committed to promoting increased gender diversity.

DIVERSITY AT AIRBERLIN

	31/12/2016		31/12/2015	
	Women	**Men**	Women	Men
Board of Directors	**0**	**8**	0	11
Management Board	**1**	**5**	1	5
Senior Management (1st level of management)	**2**	**10**	1	14
All employees	**4,188**	**4,293**	4,382	4,487

Extensive training and further education

airberlin offers students a broad spectrum of commercially and technically oriented occupations as well as a dual study programme. We train tourism clerks, air transportation clerks, marketing communication managers, IT specialists for systems integration, office managers, aircraft mechanics and aircraft electricians. airberlin also offers a Bachelor of Arts dual study programme in business administration with an emphasis in hotel and tourism management in cooperation with the University of Applied Sciences (Hochschule für Wirtschaft, Technik und Kultur).

Those who are technically oriented can train to become an aircraft technician (specialising in maintenance or assembly) or electrician for aviation systems. In September 2016 alone, 6 new apprentices began their first year of training at airberlin technik GmbH in Düsseldorf. With currently about 50 trainees, the airberlin group and is one of the largest training providers in the Düsseldorf area and has its own training facilities.

At the end of the reporting year, the airberlin group had a total of 67 trainees. During the 2016 calendar year, two dual study students and 18 trainees successfully completed their training.

Close cooperation with professional schools and universities complement programmes promoting young talent and enhances our management of employee talent. The in house academy offers specialised trainings and tailored solutions for teams with a focus on New Ways of Working and Innovation.

We train our flight attendants in-house. A total of 318 flight attendants were in training in the 2016 financial year compared to 134 in the previous year and 215 in the year before. Safety and emergency training, on-board service training, first aid, communication and announcement training, as well as training flights and several practical exercises, are all offered in specialised study courses. Training takes a period of six weeks.

Health comes first

Healthy and motivated employees are a prerequisite for a successful business. To promote this, the airberlin group offers employees occupational health and safety across the board. Risk assessments are conducted in all areas as a preventative measure to ensure health and safety at work and enable the Company to act early with any mitigating actions.

At its larger locations, the airberlin group has the support of six in-house physicians as well as in-house security specialists. airberlin also offers occupational reintegration support for employees who were absent due to illness for 42 days or more. This support facilitates the employees' return and helps them achieve a lasting recovery.

Award-winning: airberlin's environmental management

The strategic and operational management of the airberlin group and its individual companies is guided not only by financial and organisational considerations but also by the principle of sustainability. We make every effort to keep our ecological footprint as small as possible. Improving our ecological balance is an all-encompassing, ongoing objective for the entire airberlin group. Moreover, all employees are expected to do their part. Even the smallest of contributions are important because combined, they can have a tremendous impact.

Environmental protection is an overriding priority at airberlin. It is not only an integral part of our corporate philosophy but also a distinct quality that is gaining importance for both investors and passengers.

ECO-EFFICIENCY AS A COMPETITIVE ADVANTAGE

airberlin is very ambitious when it comes to carrying out its "Eco-efficient Flying" programme, which its experts have been working on throughout all departments since 2008. Eco-efficiency focuses on the gentlest possible use of non-renewable resources, especially fuel. A variety of factors must interact in order to reduce CO_2. We are continually improving all flight-related processes and uncovering potential savings with our comprehensive in-house fuel efficiency programme. A list of over 80 steps taken with respect to our fleet, technical services, weight, load and flight operations have lowered emissions and saved fuel. airberlin takes a holistic approach when it comes to fuel efficiency. In the 2016 financial year alone, a total of approximately 26,500 tonnes of CO_2 were saved.

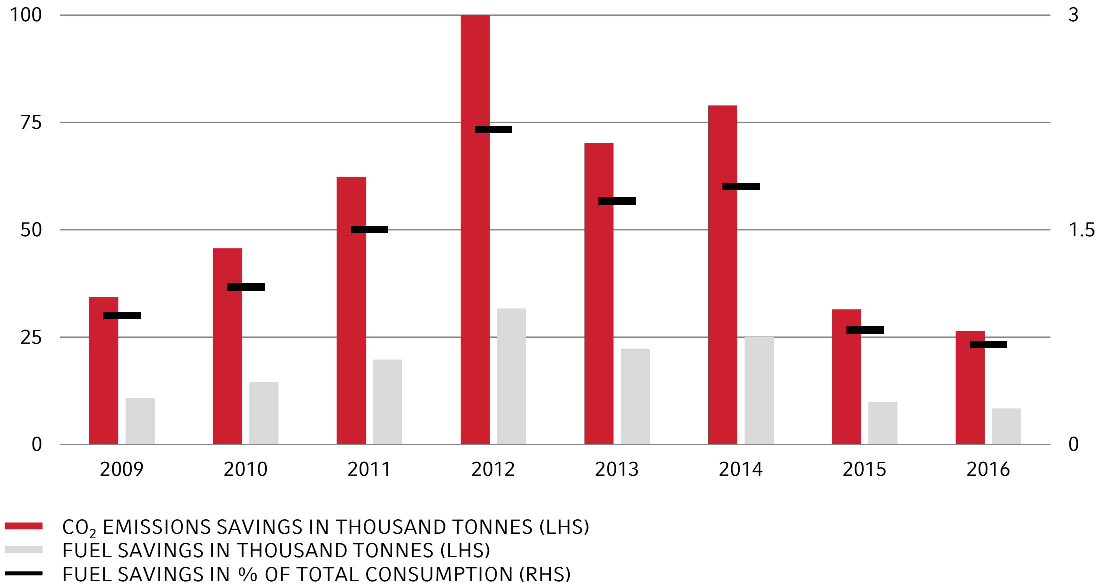
Multi award-winning efficiency programme

All of these steps combined were a tremendous success and resulted in airberlin winning awards again in 2016 for fuel efficiency. The independent environmental protection agency atmosfair awarded airberlin an average of 75 points out of 100, recognising the Company as the most CO_2-efficient European airline and second best worldwide.

airberlin's specific fuel consumption of an average of 3.3 litres per 100 PKM outperforms the average of about 3.7 litres consumed by German airlines by 11 per cent. On a capacity-adjusted basis, a passenger car even consumes more than five litres. Our medium-term goal is to reduce fuel consumption to three litres.

FUEL SAVINGS AND CO_2 REDUCTION FROM 2009 TO 2016

	2016	2015	2014	2013	2012	2011	2010	2009
Fuel savings in thousand tonnes	**8.4**	10.0	25.0	22.3	31.7	19.8	14.5	10.9
As a percentage of total consumption	**0.7**	0.8	1.8	1.7	2.2	1.5	1.1	0.9
CO_2 emissions in thousand tonnes	**26.5**	31.5	79.0	70.2	100.2	62.4	45.7	34.3
Consumption per 100 RPK in litres	**3.3**	3.3	3.3	3.3	3.4	3.5	3.6	3.6



ECO-EFFICIENCY IN TERMS OF WEIGHT AND LOAD

Reducing an aircraft's weight is an incredibly effective way to improve the fuel efficiency of the entire airberlin fleet. airberlin saves 2,000 tonnes of fuel and 6,300 tonnes of CO_2 annually through the use of lighter seats and carpets, lightweight trolleys and a "paperless cockpit". The new lightweight seats in economy class also reduce the weight per flight by an additional 575 kg. airberlin saves more than 225 kilogrammes of weight by using 38 lightweight trolleys instead of conventional trolleys. The fuel saved is equivalent to 20 flights from Düsseldorf to New York City in an Airbus A330.

airberlin uses lightweight containers and pallets to transport freight and luggage. It also uses tablets in the cockpit, which replaces the need for paper. Optimised loading and lighter cabin equipment save up to three per cent of our average total fuel consumption.

ECO-EFFICIENCY ON THE GROUND

We examine and optimise all our processes for fuel efficiency, both in the air and on the ground. We also manage our flight operations by using fuel-efficient flight plans, optimum cruise altitudes and the shortest routes. We have special software that calculates the most cost- and fuel-efficient flight course prior to each departure. Flight plans are provided on the spot before each flight and the data are sent to the cockpit to ensure that each flight is conducted as cost and as fuel efficient as possible. An optimally calculated route can save up to four per cent of the fuel required. airberlin has reduced its flight speed to a sustainable and economic level.

Another measure is block time optimisation where, instead of scheduling routes with the same flight duration at all times of day, block time optimisation goes one step further and incorporates expected traffic volumes in the airspace and at the destination airport. This also saves fuel and protects the environment. airberlin's pilots turn off their engines immediately after reaching the gate, which not only reduces unnecessary emissions but also reduces noise at the airport.

Usually, only one engine is necessary for the path from the runway to the gate. This "single-engine taxi" saves airberlin up to 700 tonnes of fuel each year. airberlin uses ground power instead of the auxiliary power unit located in the tail of the aircraft to provide the aircraft with electricity when the engines are turned off. Through the use of more sustainable ground power from the ground power unit, airberlin reduces its consumption by 1,000 tonnes of fuel per year.

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

ECO-EFFICIENCY IN THE AIR

We can fly higher, faster and more efficient by using current information such as wind data for flight operating schedules. The route consuming the least amount of fuel is determined by combining the height and wind profiles. A 300-metre difference in the cruising altitude can amount to up to a one per cent difference in fuel consumption per flight.

When possible, a continuous descent is carried out when approaching the airport. This procedure can save an additional 150 kilogrammes of CO_2 per flight and reduce noise on the ground as a positive side effect.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk management system

As a global group, the airberlin group operates in a complex and dynamic environment characterised by a variety of risks and uncertainties. As such, the risk management and internal control systems are the foundation of the airberlin group's good corporate governance and an integral part of the group's overall management and reporting processes. These systems apply a common methodology based on a standard framework for enterprise risk management defined by the Committee of Sponsoring Organisations (COSO). An airberlin group-wide compliance management system is in place to ensure that regulations and guidelines are identified and observed to minimise and prevent exposure to risks resulting from violations of national or international regulations. This system also allows airberlin's processes to adapt to any changes in the applicable relevant regulations.

Routine reviews in cooperation with the department heads help to identify threats and risks and facilitate effective management. All relevant corporate risks throughout the airberlin group are gathered in the central risk management system using an IT-supported process. As an integral part of the management and reporting process, a uniform coordinated procedure with the department heads is applied to identify risks, assess their likelihood of occurrence, evaluate their possible scope of damage and managed through reviews and taking the appropriate actions.

The Board of Directors is responsible for establishing an effective risk management system and receives regular reports from the Management Board on any significant risks.

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

Industry risks

OVERALL ECONOMIC ENVIRONMENT

As with all companies in the aviation industry, the airberlin group's revenues correlate highly with macroeconomic developments. Any deterioration in the domestic or global economy can have a material adverse impact on the airberlin group's financial position, results of operations and operating activities. Insolvencies among customers or contracting parties, including financial institutions acting as hedge counterparties, could also result in losses for the airberlin group.

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

Risk mitigation measures: The airberlin group keeps abreast of the relevant market and overall economic developments and the profitability of its routes to ensure it can promptly react and possibly counteract any surfacing negative trends.

MARKET AND COMPETITIVE RISKS

Passenger traffic worldwide, measured by the amount of revenue per passenger kilometre increased in 2016 by 6.3 per cent. Above average growth occurred in the Middle East (11.2 per cent), Asia Pacific (9.2 per cent) and Africa (6.5 per cent). European airlines grew by 4.6 per cent whereas German airlines or airline groups (the airberlin group, condor, the Lufthansa group and TUIfly) grew only by 1.4 per cent. These figures indicate the strong degree of competitive pressure on the German airlines, particular from the European low-cost carriers. The growing interest of low-cost carriers (Ryanair, Easyjet and Vueling) in the German market has a direct impact on airberlin. Low-cost airlines such as Eurowings and Norwegian Air are also turning their focus more towards the long-haul market than in the past. The broader range of offers in these business areas may result in increased price and capacity pressures at airberlin.

The main competitive issues facing the airberlin group concern prices, route networks, flight schedules, reputation, and the range of passenger services. Intense competitive pressure accelerates the market's dynamics and consolidation, which is demonstrated by the changes and developments seen in collaborations with partner airlines, shareholdings and global alliances. Potential acquisitions and mergers among competitors could have an abrupt, negative impact on the airberlin group's revenues and market position.

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

Geopolitical factors effect both the aviation and tourism industries. 2016 was also characterised by the geopolitical crises in the Middle East and the ensuing flow of refugees into tourist areas in the European Union. Political uncertainties and terrorist attacks have sustainably damaged Turkey as one of the key tourist destinations. These events have had a direct impact on customers' travel behaviour and adversely affected the business of the airberlin group and may continue to do so.

Risk mitigation measures: The comprehensive restructuring programme initiated in 2016 is the outcome of a thorough analysis of the current market and competitive situation. By continuously analysing the market, the Company ensures that it will be able to continue to recognise potential market changes at an early stage and respond accordingly. Even after the realignment of the airberlin group is completed, key strategic alliances and partnerships will continue to support airberlin's network and competitiveness.

RISKS ASSOCIATED WITH COOPERATION AGREEMENTS

airberlin has a cooperation agreement with Etihad Airways, which has a shareholding of 29.21 per cent in the Company and is its largest single shareholder. This cooperation includes a codeshare agreement, reciprocal frequent flyer programmes and agreements on ground handling and cargo transportation. There are also several partnerships with Etihad Airways Partners. The termination or failure of a cooperation or a significant decrease in the degree of cooperation with Etihad Airways or any of the other airlines mentioned, e.g. due to a change in strategy at a partner airline, could have an adverse effect on the airberlin group's business activities, financial position and results of operations.

airberlin has been a member of the **one**world® airline alliance since March 2012 and has entered into a series of codeshare agreements under this alliance. **one**world® competes with other airline alliances that in some cases command larger networks. These other alliances may also be able to enhance their market position through mergers and other agreements. Consequently, **one**world® may lose its importance in the market or, in the worst case, may be dissolved entirely if key members leave the alliance. The termination of airberlin's membership in the **one**world® alliance or the termination of codeshare partnerships with other members of the **one**world® alliance cannot be ruled out. If one or more of the risks described in this paragraph should materialise, this could have an adverse effect on the airberlin group's route network and flight offers and consequently on the airberlin group's business activities, financial position and results of operations.

Risk mitigation measures: The airberlin group will continue to strive to develop and strengthen its cooperation with its partners and continue to develop new partnerships.

Regulatory risks

REGULATORY RISKS IN GENERAL

The airline industry's regulatory environment is becoming stricter, which has a direct impact on many of the airberlin group's activities including security, aircraft noise levels, pollutant emissions, passenger rights, data processing, air traffic rights, airport slots, operating permits and environmental controls.

A major portion of the airberlin group's regulatory costs stems from the German aviation tax, which has a direct adverse effect on the airberlin group's annual financial position (see the "aviation tax" risk factor below). Some of the fees at German airports also increased in 2016, and future increases are expected, particularly at the Berlin Brandenburg Airport (BER), a key future airport for the airberlin group. The increase in fees and higher aviation safety charges at many German airports represent a cost risk. Legislators and regulators may impose additional operational or other restrictions at airports, including a possible extension in night flight curfews, aircraft noise and emissions requirements, prescribed flight routes, runway restrictions, a limitation of the number of average daily departures and slots restrictions. These restrictions could hinder airberlin's ability to provide or expand its range of services at these airports and may lead to additional costs for airberlin.

Additional pressure could also come from emissions restrictions and emissions trading, particularly in the aftermath of a shortage of certificates due to what is known as "backloading" and a possible return to the application of the EU's emissions trading system (ETS) for international flights (please also see the risk explained under the section "Emission Trading"). This may have a material adverse effect on the airberlin group's business activities, financial position and results of operations.

The airberlin group's business is also subject to applicable EU and international regulations, bilateral and multilateral agreements and industry regulations affecting the aviation industry as well as the airberlin group's own internal rules and guidelines. airberlin cannot predict the effect of future changes in air traffic guidelines in Germany, the European Union, internationally or in bilateral and multilateral agreements or the impact of such changes on the aviation industry or airberlin's business and its costs. Changes in the regulatory framework that apply to airberlin could result in a significantly higher cost of doing business and have a material adverse effect on the airberlin group and the airline industry in general.

There are currently several national laws and EU regulations being revised or newly implemented that could impact the amount of costs incurred by the airberlin group. These regulations include the Air Passenger Rights Regulation (EC) No. 261/2004 and the Anti-Dumping and Anti-Subsidy Regulation (EC) No. 868/2004 which are in the process of revision. In April 2016, a directive on the use of passenger data records (PNR data) was passed by the European Parliament and Council. Member States now have until 2018 to incorporate this EU Directive into national law. The transposition process at the national level is close to finalisation (the so called Fluggastdatengesetz has been passed by the German goverment). At the end of 2015, the European Commission made recommendations for a broad-based reorganisation of international aviation relations which is part of the so-called Aviation Strategy. This policy sets out comprehensive steps for improving competition within the EU and regulating external relations. These steps also include targeted mandates for the negotiation of air transport agreements, which the European Commission is now authorised to do. The European Commission is currently in the initial stage of negotiating broad-based air transport agreements with the first key partners. At the national level, the publication of the so calledAviation Strategy is still pending. A revised Aviation Securityy Act has been adopted by the German legislator in February 2017. The changes made to the Act imply the risk of further cost increases for airlines.

Risk mitigation measures: The Company strives on the national, international and EU level to contribute its expertise to ongoing legislative processes and political discussions that are relevant to the airberlin group. In doing so, airberlin intends to safeguard its interests by either acting alone, together with other airlines or through associations.

REVIEW OF THE RELATIONSHIP WITH ETIHAD AIRWAYS BY THE EU COMMISSION AND THE LBA

In 2014, the European Commission started an investigation into the ownership structure of several European air carriers, including the existing investment of Etihad Airways in airberlin. Investigations focused on whether Etihad Airways, as a non-EU investor, effectively controlled the Company despite holding only a minority stake.

At the national level, the German Federal Office of Civil Aviation (LBA) had already completed a corresponding investigation and, in December 2014, came to the conclusion that there is no evidence that Etihad Airways effectively controlled airberlin and therefore airberlin complies with the requirements of Regulation (EC) no. 1008/2008.

Based on the information available to airberlin, the European Commission does not intend to take any further action in this matter. airberlin also believes that it is very unlikely that the European Commission may decide that the cooperation between airberlin and Etihad Airways is not in accordance with European law. This assumption is based on the fact that the European Commission viewed airberlin as a non-controlling minority interest of Etihad Airways in the context of the approval of Etihad Airways' acquisition of joint control over Alitalia. Nevertheless, we cannot rule out that the European Commission or the LBA may conduct a further investigation into the relationship between airberlin and Etihad Airways in the future.

Risk reduction measures: Should the European Commission or the LBA investigate this matter further, airberlin will continue to provide evidence that it complies with the relevant requirements under European law.

GERMAN AVIATION TAX

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

In its judgment of 5 November 2014, the German Federal Constitutional Court (Bundesverfassungsgericht) ruled in a judicial review brought by the State of Rhineland-Palatinate that the aviation tax does not violate the German Constitution. The tax is justified as a tool to finance the state budget and to promote climate protection. Each of airberlin and NIKI Luftfahrt GmbH also brought an action against the aviation tax bill, which was rejected by the Federal Court of Finance (Bundesfinanzhof) in December 2015. There is no longer hope for a quick end to the aviation tax. While other European countries have recognised the negative impact of such a tax and have either refrained from introducing or quickly abolished such taxes, Germany continues to stand by its decision. The Federal Ministry of Finance (BMF) slightly reduced the standard tax rates for 2017 based on the proceeds from the trading of aviation-related greenhouse gas emission certificates.

Risk mitigation measures: airberlin will continue to advocate for the elimination or further reduction of the German aviation tax either on its own or together with other relevant associations.

AIR TRAFFIC CONCEPT

The Federal Government's current coalition agreement states: "We will strengthen the aviation sector in Germany and are committed to maintaining its international competitiveness. When introducing fiscal or regulatory measures in the aviation sector, we seek a positive cost-benefit ratio". Given the German air traffic's policy objective, the goal of the Federal Ministry of Transport and Digital Infrastructure is to present an air traffic concept for Germany during the current legislative period. The basis for creating the air traffic concept is a comprehensive fundamental opinion drawn up by a consortium of independent research institutes. Originally the legislator had planned to publish the air traffic concept in the second half of 2016 and have it form the basis for the Federal Government's future air traffic policy. After the Federal Transportation Minister presented the concept's key points in November 2016, it is not yet clear whether the air traffic concept will be presented in the current legislative period.

Various interested parties were involved in drafting this fundamental opinion. The creation of an air traffic concept based on the recommendations for action derived from this report may have direct or indirect consequences for airberlin. Even if the Federal Government's concept supports Germany as an aviation location, individual objectives could still have negative consequences for airberlin that would eventually be associated with additional regulations and costs.

Risk mitigation measures: The aviation associations were involved in the creation of the fundamental opinion through their participation in advisory working bodies. airberlin continues to campaign with the competent associations for financial relief in the context of the air traffic concept's creation.

AIR TRAFFIC CONTROL

A further challenge faced by the airline industry is the restrictions stemming from non-uniform air traffic control throughout Europe. The bottlenecks that result continue to lead to detours, delays, higher fuel consumption and emissions and considerable waiting times. This places a burden on the results of all airlines operating in Europe, including airberlin.

Although for some time now, European institutions (the Commission, Council and Parliament) have been paving the way for a unified European airspace (referred to as the Single European Sky), the EU member states are still lacking the political motivation to implement the Single European Sky initiative. Few EU countries have been willing to give up national sovereignty in this area and work closely with the air traffic control service providers in the neighbouring countries.

However, the European Commission's current draft for the aviation package increases the pressure on EU member states to put the Single European Sky project into action. There would be significant efficiencies to be gained from creating a unified European airspace. The environment, consumers, and airlines would benefit equally from combining the current airspaces under the same centrally organised air traffic control service for the entire European airspace.

Risk mitigation measures: Intense political negotiations led to a significant reduction in air traffic control fees for 2017 as was the case in 2016. From 2015 to 2019, the amount of air traffic control fees was specified by European law. Extensive consultation and discussion on a national and European level about the regulation of air traffic control services in the years 2020 until 2025 are currently underway. This may help to avoid significant cost increases. Risks such as lower traffic volumes or unforeseeable additional costs can, however, be partially passed on to airspace users by the air traffic control service providers so that airberlin may need to absorb additional costs.

EMISSIONS TRADING

The inclusion of the aviation industry in the EU emissions trading system (EU ETS) increases the costs incurred by the airlines concerned and has negative ramifications for the competitive landscape. Because of the suspension of the obligations for reporting and emission certificate submission for flights starting or ending outside the European Economic Area (EEA) until the end of

2016 (known as the "Stop-The-Clock" resolution), airlines (such as the members of the airberlin group) that operate mainly within the EEA incurred a higher burden from the emissions trading obligations than competitors that operate entirely outside the EEA or less frequently within the EEA.

At the 39th general meeting of the International Civil Aviation Organization (ICAO) in the fall of 2016, a global market-based solution for reducing aviation emissions was agreed and will start as of 2021. It is still undecided as to how the EU emissions trading system will be organised as of 2017. The original scope of application of the EU ETS ("full scope") will automatically apply if the European Union fails to introduce an amended statutory provision before emissions reporting for 2017 due on 31 March 2018.

The market stability reserve introduced in the third trading period (2013 to 2020), which as of 2019 is expected to reduce the excessive amount of emission certificates on the market, could increase the price risk from the emissions trading obligations of the airberlin group.

Risk mitigation measures: To counteract the risk of a unilateral European effort resulting in distorted competition, airberlin is in direct political discussions with German and Brussels-based aviation associations to implement the global market-based measures resolved by the ICAO and a related dissolution of the EU ETS.

According to the relevant laws, airlines receive a certain number of emission certificates based on their historical emissions and their share of the total air transportation market. To comply with the emissions trading obligations, the airberlin group has carried out hedging transactions for the portion of emission certificates that is not covered by free allocations and has been equipped with a sufficient number of emission certificates for the year 2016 whose physical delivery was scheduled for the end of April 2017.

However, the above hedging instruments do not fully protect the airberlin group from the adverse effects of price increases for emission certificates under the emissions trading system (see the risk factor "Financial Risk").

RISKS FROM THE UNITED KINGDOM REFERENDUM (BREXIT)

Air Berlin PLC is the legal parent Company of the airberlin group and the general partner of Air Berlin PLC & Co. Luftverkehrs KG, which carries out most of the operating activities of the airberlin group. The Company is a public limited company under English law and enjoys freedom of movement and freedom of establishment in Germany under current EU law.

The referendum on 23 June 2016 decided in favour of a withdrawal of the United Kingdom from the EU. Legally effective, the United Kingdom has informed the other Member States in accordance with Article 50 of the Treaty on European Union on 29 March 2017 that it will leave the EU. For the time being and also during the exit negotiations, to which up to two years have been allocated, the United Kingdom will remain a member of the EU. The future relations with the United Kingdom have yet to be negotiated.

The exit of the United Kingdom from the European Union could result in negative consequences for the Company, particularly if the exit negotiations lead to the freedom of establishment of the Company and its concomitant recognition in Germany being revoked or restricted. This may result in company law restrictions and/or the need to reorganise the structure of the airberlin group and costs associated therewith.

A negative impact on the aviation rights of the airberlin group, which are mainly held by Air Berlin PLC & Co. Luftverkehrs KG, is not currently expected. Under EU law, the decisive factor allowing an air carrier to be considered an EU air carrier that can operate freely within the EU is that EU Member States and/or national of EU Member States must own more than 50 per cent of the Company and effectively control it. A large majority of bilateral air transport agreements require that either a German national or a national of another EU member state must have a shareholding or control (depending on the agreement) for the allocation of traffic rights. The Company's Articles of Association provide detailed rules and arrangements to ensure that the Company remains in German or EU ownership to the extent necessary.

Risk reduction measures: The Company will closely follow the exit negotiations and the redesign of relations between the EU and the United Kingdom and, when necessary, review at an early stage whether adjustments to the corporate structure or other conditions of business operations are necessary or advisable.

Financial risks

RISKS DUE TO FLUCTUATIONS IN FUEL PRICES, INTEREST RATES, EXCHANGE RATES AND PRICES OF AVIATION POLLUTION RIGHTS

As an internationally operating air carrier, airberlin is exposed to fluctuations in fuel prices, interest rates and exchange rates – particularly for the U.S. dollar – and to the prices for emission certificates. A significant or lasting appreciation of the U.S. dollar, which cannot be or was not fully hedged, would have an adverse impact on the airberlin group's financial performance. Above all, possible increases in fuel prices or lower fuel availability may also lead to increased expenses and could have an adverse effect on the airberlin group's business activities, financial position and results of operations.

Risk mitigation measures: Fluctuations in fuel prices, interest rates, and exchange rates are extensively hedged through revolving hedging activities with renowned international financial service providers. For the systematic management of interest rate and currency risks, airberlin has established a group-wide treasury management system and a separate commodity management system within the existing risk management system to manage the risk of changes in fuel and emission certificate prices. In addition to a review of all underlying transactions and the corresponding hedging transactions concluded on a revolving basis, a comprehensive calculation has been conducted as to the fair value measurement and the effectiveness of the hedging arrangements. There can be no assurance that the airberlin group's hedging strategy will be successful or that the counterparty to the hedge will not declare bankruptcy or fail to fulfil its obligations.

The developments with regard to the European emissions trading system and the airberlin group's respective risk management measures are described further in the section above entitled "Emissions Trading".

FUTURE FINANCING

The combination of circumstances as described in Note 2 represent a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern and that therefore the company may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual financial statements. The financial statements do not include any adjustments that would result from the going concern basis being inappropriate.

Risk mitigation measures: In order to manage the financial risks, internal guidelines are applied that define and support operations.

RESTRUCTURING

In 2016, the Company began a comprehensive restructuring programme to properly position the Company for the future and promote long-term growth. airberlin's realignment will create a focused network carrier with a distinct profile serving more lucrative markets from the hubs in Berlin and Düsseldorf. A core aspect of this realignment is the expansion of airberlin's long-haul business. With the proposed sale of NIKI, including the European and North African touristic business, the road will be paved for a simplified business model and a stronger financial position for airberlin. Though the nature of the contract is onerous and causes a provision, we reduce existing surplus capacity while maintaining employment protection and lowering our restructuring costs by wet leasing up to 38 aircraft to the Lufthansa Group (see note 15).

Should the Company not be able to fully implement this restructuring programme on a timely basis, or should this programme not meet the Company's expectations, this could have a material adverse effect on the business activities, financial position and results of operations of the airberlin group. This includes, in particular, the dependence on the planned disposition of NIKI to Etihad Investment Holding.

Risk mitigation measures: A transparent and timely reporting process has been established which illustrates each step in the programme in terms of time, cost and effect to ensure the uniform management of the entire restructuring programme. Regularly coordinated risk analyses for the programme also ensure that the necessary countermeasures are promptly instituted.

FINANCING RISKS DUE TO SEASONAL FLUCTUATIONS

The demand for airberlin's services fluctuates throughout the year and leads to fluctuating quarterly results. It is customary in this business to experience the highest demand in the summer season, from May to October, and the lowest demand in the winter season, from November to April (excluding the days around Christmas, New Year's Day and Easter). This causes fluctuations in the utilisation of airberlin's aircraft and profitability during the year. When flight cancellations or other factors occur that adversely affect the aircraft's utilisation, especially in the summer season, these can have a particularly negative impact on the airberlin group's business activities, financial position and results of operations

Risk mitigation measures: The airberlin group's liquidity management takes into account the risks associated with seasonal fluctuations and the network of the new airberlin has been designed to significantly reduce seasonal fluctuations.

Operational risks

airberlin's risk management system also addresses the operational and technical risks of flight operations that it is inherently exposed to as an airline operating internationally. These risks are systematically identified, assessed and managed using appropriate measures.

DELAYED OPENING OF BER

We continue to use the older and smaller Berlin-Tegel airport (TXL) – which is already operating at full capacity – due to the delayed opening of the new Berlin Brandenburg Airport (BER). The opening was originally scheduled for 3 June 2012, and according to the statements of the airport operator, will continue to be delayed until at least 2018. airberlin's expansion in the number of flights offered that was based on the higher capacity at BER must now be accommodated at TXL. The continued delay in the opening of the new BER airport or difficulty in operating the airport could have an additional significant adverse effect on the airberlin group's business and operating performance. airberlin's current restructuring programme and the accompanying changes to the business model further increase the demands for reliability placed on the hub infrastructure at Tegel.

Risk mitigation measures: The various risk reduction measures are intended to minimise the existing capacity and infrastructure constraints at the TXL airport. airberlin is in constant contact with the airport's management and takes steps to improve the performance of the operating company and handling partners.

SAFETY AND ACCIDENT PREVENTION

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

Risk mitigation measures: Ensuring safety is the airberlin group's primary task. To minimise this risk, the airberlin group has an extensive safety management system that covers all operational areas such as flight operations, training, technical services and ground handling. Safety-relevant information is combined and linked within this system to identify negative trends and potential dangers early on and respond proactively. If an incident should occur, the airberlin group has developed contingency plans and provides ongoing training to its employees on how to handle crisis situations. The airberlin group has also created insurance concepts that meet the standards of the international aviation industry.

SECURITY

As with all companies in the aviation industry, the airberlin group's business is exposed to the dangers of civil, political or military conflicts, riots, terrorism and security threats and attacks.

Constant change in the global security situation and political developments require ongoing security reviews and re-evaluations to guarantee the safety of our flight operations, customers and staff. The fragile security situation in North Africa and the Middle East, and the persistent threat of terrorist attacks throughout the world have made it necessary for the airberlin group and the entire civil aviation sector to introduce extensive security measures. The extension and continuation of existing conflicts or similar conditions could have material adverse effects on the aviation industry in general and on the airberlin group in particular, especially if they are directed against air traffic or certain markets that are important to the airberlin group. If airberlin is not successful in preventing major security or terrorist threats or in preventing or effectively dealing with an attack, this could have an adverse effect on the airberlin group's reputation, operations and financial performance. Additionally, future terrorist attacks or other conflicts may lead to more stringent security regulations for air transportation, which could cause a rise in the airberlin group's operating costs.

Risk mitigation measures: The airberlin group's security expertise draws on an international network of security agencies, partner airlines and security companies to monitor the global security situation and its development. The destinations the airberlin group serves and the security measures in place at such locations are validated by regular security analyses and security inspections on the ground. These analyses and inspections are also designed to assess the terrorism, crime and the regulatory structures in place. The security management system is intended to provide a quick analysis of unfolding events so that it is possible to respond to danger and initiate effective measures in advance, i.e. to respond quickly and effectively in the event of an incident. The airberlin group utilises crisis management processes that also take into account any potential civil and political conflicts in its destination countries. For ongoing conflicts, airberlin monitors the situation intensively so that it can react by adapting its routes or route network when necessary. The aviation security measures applied within the airberlin group satisfy the strict national and international requirements placed on aviation companies and are also reviewed and confirmed within the framework of routine quality and IOSA (IATA Operational Safety) audits.

AIRPORT, TRANSIT AND LANDING FEES AND SECURITY CHARGES

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

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

RELATIONSHIP WITH EMPLOYEES

Some of the airberlin group's employees are unionised and covered by a large number of collective agreements that regulate work conditions and remuneration. These contracts are renegotiated with the unions on a regular basis. The airberlin group may be subject to employee strikes during such renegotiations or generally subject to a strike or industrial labour dispute affecting the entire aviation industry. In addition, the airberlin group may be negatively affected by third party strikes occurring at airports from which the airberlin group operates or at wet-lessor partners of the airberlin group. Such events could have a material adverse effect on the airberlin group's ability to maintain or achieve profitability and may also negatively impact the airberlin group's business activities, financial position and results of operations.

The airberlin group's success depends on the performance of its Board of Directors, senior managers and other managers holding key positions. A departure or significant change in the airberlin group's management composition could lead to a considerable loss of expertise and investor confidence in the airberlin group. Departures may also have a material adverse effect on the airberlin group's business activities, financial position and results of operations.

Risk mitigation measures: The airberlin group keeps in regular contact with its employees, their representatives, the trade unions and service providers to, where possible, prevent disputes from arising and possibly escalating.

Environmental and health risks

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

The outbreak of a pandemic or an infectious disease can also cause considerable disruption to the network. Such events can lead to a decline in travel frequency, increased employee absences and lost revenue, particularly if they occur during the peak holiday seasons. These events could also have a material adverse effect on airberlin group's business activities, financial position and results of operations.

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

IT risks

The airberlin group's central business processes would not be possible without adequate and uninterrupted internal and external computer systems, communication systems, IT support and IT systems. These central business processes include ticket sales, reservation processes, air traffic management and flight operations. Computers and communication systems are prone to interference, damage, power outages, acts of terrorism, sabotage, computer viruses, fires and other incidents. Programming errors can also never be entirely avoided. There can be no certainty of the efficient and uninterrupted operation of the systems used by the airberlin group or third parties or systems used by the airberlin group's partners, such as reservation systems in travel agencies. The increasing networking and use of new products and technology pose a significant challenge to IT security. To overcome these challenges, it is important to raise user awareness and foster responsible behaviour.

A loss, failure or interruption of the mentioned support and systems, a loss of access to the appropriate facilities in which these systems are housed or a breach in the security measures that protect these IT systems and the information contained therein can greatly interfere with the airberlin group's business operations and have a material adverse effect on its reputation, business activities, financial position and results of operations. An increasing number of legal requirements (IT safety legislation, EUDSGV) and specific implementation requirements (PCI DSS) are mandatory in this respect.

Risks in the 2017 financial year also include those from the changeover of the booking system. The switch from Amadeus to SABRE will involve a major modification to the IT infrastructure. A delay in the changeover or functional problems with the booking system may adversely affect operations and have financial implications.

Risk mitigation measures: The airberlin group's risk management system is specifically focused on the identification and control of IT risks, including those risks arising from within or outside of the airberlin group. Professional project organisation for the SABRE project is used to minimise functional risk by using a variety of tests in cooperation with the provider to deliver extensive quality assurance. Detailed project plans are used to organise the project and maintain timelines. Sufficient quality assurance and project control resources were made available to achieve this. Management is regularly informed of the project's status and decision-making committees are used for the project's escalation.

Breach of compliance regulations

Compliance means compliance with the laws, regulations, commitments and internal policies. Compliance should ensure the lawful conduct of the Company, its management and staff. The effectiveness and efficiency of airberlin's compliance management system are, therefore, of central importance for the airberlin group.

The airberlin group is a globally active company and subject to various legal standards and case law that it must comply with and monitor. Further risks for airberlin include compliance violations by suppliers and business partners.

For this reason, the airberlin group has implemented processes to identify specific compliance risks and especially to prevent fraudulent activities such as corrupt behaviour.

The airberlin group also is subject to competitive and antitrust risks mainly because it operates in predominantly oligopolistic markets, participates in alliances and partnerships with competitors and potential competitors and because competition on certain routes is subject to rapid change.

Risk mitigation measures: The focus of the airberlin compliance system is to minimise compliance violations by making employees more aware of the applicable rules, laws and regulations through binding internal rules supported by policies and the airberlin code of conduct. An ombudsman system is available to help employees uncover violations of the Company's rules and guidelines.

To manage the risks associated with suppliers and business partners, the airberlin group has established a third party compliance programme in which suppliers are evaluated in terms of compliance risks and requested to comply with certain minimum standards. To do so, airberlin uses the external service provider SEDEX. airberlin also requires suppliers and business partners to comply with a business code of compliance to ensure that they are committed to minimum standards of compliance.

Despite these verification and risk reduction mechanisms, individual violations have occurred in the past and may again occur in the future.

REPORT ON FORECASTS AND OUTLOOK FOR THE GROUP

Development of the overall economy and the aviation industry

GLOBAL ECONOMIC OUTLOOK

According to the IMF, the growth of the global economy will pick up slightly expanding 3.1 per cent in 2017. Momentum in the OECD countries, however, is likely to increase only marginally. The outlook for commodity-exporting countries, thereby the emerging countries, will be more favourable in view of rising commodity prices.

The United States poses a significant source of uncertainty for forecasters. It is still unclear which economic direction will be taken by the new administration under President Donald Trump. The IMF is assuming stronger fiscal stimulation and has raised its 2017 forecast for US growth to 2.3 per cent. The IMF has also adjusted its outlook slightly for Germany, Japan, Spain and the United Kingdom. Overall, the advanced economies are expected to grow by 1.9 per cent in 2017 versus the 1.6 per cent growth recorded in the previous year.

Among the emerging markets, countries such as Russia and Brazil, which have lingered in recession in recent years, are likely to catch up. Emerging market countries are anticipated to grow 4.5 per cent in 2017, after 4.1 per cent in 2016. China will continue its path of growth normalisation with an expected 6.5 per cent growth compared to 6.7 per cent in the prior year. The IMF expects the eurozone, on the other hand, to grow only modestly in 2017. Growth is projected to decline slightly in almost all major euro countries in 2017 as well as in the UK.

INTERNATIONAL AIR TRAVEL IN THE YEAR 2017

The group of IATA scheduled airlines expects a continuation of their positive earnings performance this year. In spite of the rising commodity and fuel prices, the main factor driving this expected performance is continued growing demand. The rate of increase, however, will be lower than in the previous year. In the current year, IATA expects a global increase in passenger numbers of 4.9 per cent to 4.0 billion after 3.8 billion in 2016 and a 5.1 per cent rise in RPK to 7.4 trillion compared to 7.1 trillion in 2016. The year-on-year rise in passenger traffic is expected to result from a slightly higher global economic performance and further falling average fares, which makes flying more attractive while consumers maintain their level of aviation-related spending. After a decline in revenues from the tourism business in 2016 (–2.5 per cent), they are expected to recover by 5.1 per cent in the current year. Revenue per PAX, however, will continue to follow the long-term trend in 2017 and is projected to fall further by –3.3 per cent to USD 351, compared to USD 363 in the previous year, but by far less than in 2016 where it fell almost 11 per cent. In comparison to 1995, revenue per passenger generated in 2017 is projected to be 63 per cent lower.

With a net increase in the total fleet of the IATA companies of more than 1,000 to a total of 28,712 aircraft (+ 3.6 per cent) and an expansion in capacity of 5.1 per cent to 4.1 million seats or 5.6 per cent in ASK, expectations are for a renewed slight decline in capacity utilisation from 80.2 per cent to 79.8 per cent. In Europe, IATA expects the growth in ASK will accelerate to 4.3 per cent in 2017, compared to 3.8 per cent in the previous year, and the growth in RPK of 4.0 per cent compared to 3.8 per cent in the prior year, to be lower than the growth in supply. As a result, capacity utilisation in Europe is also expected to decline slightly from 67.0 per cent in 2016 to 66.8 per cent.

REPORT ON EXPECTED DEVELOPMENTS IN FINANCIAL YEAR 2017

In 2016 the management of airberlin addressed the challenges of the business model that had negatively impacted airberlin for several years. In 2017 the strategic direction of new airberlin is being implemented, including the sale of NIKI with the European and North African touristic business and the ACMIO transaction with the Lufthansa Group. However, as with any change in strategy of such significance, results will not always be immediate.

The following substantial milestones in the implementation of new airberlin have already been achieved:

- Under the ACMIO transaction with the Lufthansa Group, airberlin is operating 35 of the total of 38 wet leased aircraft. The remaining three aircraft will be in operation as scheduled by the end of March 2018.
- As of 26 March 2017, NIKI assumed the touristic flying from airberlin as part of the consolidation of the touristic business in NIKI.
- Three additional A330 aircraft will be placed in operation during the first half of 2017, resulting in a 53 per cent growth in airberlin's US capacity. In addition, new flights from Düsseldorf to Orlando and from Berlin to San Francisco and Los Angeles were launched. To supplement these new destinations and increased frequencies, airberlin opened a new lounge at its hub in Berlin Tegel on 14 January 2017.

The following significant milestones are expected to be completed during the course of 2017:

- The closure of certain decentralised maintenance stations as part of the restructuring programme.
- In line with the streamlining of the operation a significant headcount reduction across maintenance and headquarters will be achieved by the end of the current financial year 2017.

The year 2017 will be a year of transition laying the foundation for the new airberlin which will be in full swing from Q4 onwards. Its financial results are therefore not expected to fully mirror the productivity enhancements and market success of the new airberlin business model. In particular, the first half year of 2017 will be characterised by the far reaching changes accompaniying the implementation of the new business model.

GENERAL STATEMENT ON THE GROUP'S ECONOMIC DEVELOPMENT

We do not expect 2017 to bring about an immediate and material turnaround of the financial or operational performance of airberlin. The on-going significant structural changes to the business may impact operational performance. Until the announced transactions and transformation are completed, uncertainty may impact revenues and bookings. That said, upon such completion, the structural foundations of the new business plan will be in place. Management believes that the Company will then be able to generate positive results on a sustainable basis. We expect productivity enhancements as a result of the simplification of the network structure to be realized from Q4 2017 onwards.

SUPPLEMENTARY REPORT

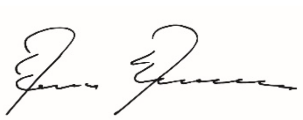
30 January 2017: The German Federal Cartel Authority unconditionally approves the wet-lease agreement between airberlin and the Lufthansa Group.

1 February 2017: Thomas Winkelmann assumes the role of Chief Executive Officer, Chairman of the Management Board and Director of the Company.

20 February 2017: airberlin announces the results of an exchange offer for its existing Guaranteed Convertible Bonds due 2019 and the placement of new Guaranteed Convertible Bonds due 2019 in the amount of EUR 140 million.

1 March 2017: Götz Ahmelmann returns to airberlin as Chief Commercial Officer and Julio Rodriguez becomes Chief Commercial Officer of NIKI.

3 April 2017: Neil Mills, Chief Strategy & Planning Officer at airberlin, takes up the new post of Chief Transformation Officer with immediate effect and leads a newly created division which will work across the whole airline to strengthen the overall performance of the Company.



Thomas Winkelmann
Chief Executive Officer

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Board composition

As at 31 December 2016, the Board comprised the following seven Non-Executive Directors: Dr Hans-Joachim Körber (Chairman of the Board), James Hogan (Vice Chairman of the Board), Joachim Hunold, James Rigney, Ali Sabancı, Andries van Luijk and Johannes Zurnieden and one Executive Director, Stefan Pichler. In 2017 the Company intends to appoint at least one further independent Non-Executive Director. The Board met 16 times in 2016.

Effective 31 January 2017, Mr Pichler stepped down from his role of Chief Executive Officer and Chairman of the Management Board. Mr Thomas Winkelmann assumed both such roles, effective 1 February 2017. Effective 30 June 2016, Nicholas Teller retired as an independent Non-Executive Director. Effective 31 December 2016, Lothar Steinebach retired as an independent Non-Executive Director.

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

NON-EXECUTIVE DIRECTORS AND INDEPENDENCE

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

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

The Board is satisfied that the Chairman and each Non-Executive Director committed sufficient time during 2016 to fulfilling their duties as Board members and that their contributions and performance continue to be insightful, effective, timely and relevant. The Nominations Committee reviews on an ongoing basis the interests of the Non-Executive Directors to ensure that the Board's effectiveness is not jeopardized. The main external commitments of the Board's Chairman, Dr Hans-Joachim Körber, did not change during the reporting year.

The Board considers each Non-Executive Director's independence annually to ensure that no one Director or group of Directors exerts an undue influence on the other Directors. The Board applies a rigorous process to satisfy itself that its independent Non-Executive Directors remain independent. The UK Corporate Governance Code provides that smaller companies, such as airberlin, can elect to apply the UK Corporate Governance Code as it applies to smaller companies. The Company has made such election and, accordingly, its Board will have at least two independent Non-Executive Directors.

After due consideration, the Board determined that Messrs Teller (retired from office effective 30 June 2016), Zurnieden, Steinebach (retired from office effective 31 December 2016) and van Luijk are independent Non-Executive Directors. In reaching these determinations, the Board has considered these Non-Executive Directors' relevant external commitments during the period under review. The Board has also considered whether they are nevertheless independent in judgment and character and free from circumstances or relationships which are likely to affect, or could affect, their judgment. Following its review of such considerations, the Board is satisfied that the independence of the above-named independent Non-Executive Directors who either serve as directors on the boards of entities and/or who hold other positions outside the airberlin group has not been compromised.

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

The Board determined that each such independent Non-Executive Director strengthens the Board through his level of expertise and senior experience gained in his respective professional and business field. The Board also considered, where applicable, the above-named independent Non-Executive Directors' Company shareholdings and financial interests (see page 78) in the Company as compared to the total number of Company shares outstanding. The Board has concluded that such shareholdings and interests are sufficiently low so as not to interfere with independence.

The Board's work in 2016

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

- the strategic review of the Company's business model, including the fundamental restructuring and repositioning of the new airberlin;
- the focusing of the European touristic business in NIKI as well as the sale of its indirect shareholding in NIKI;
- the disposition of up to 38 aircraft under an ACMIO arrangement with members of the Lufthansa Group;
- the financing requirements of the Company, including the Company's entry into loan agreements with Abu Dhabi Commercial Bank, National Bank of Abu Dhabi and EA Partners II B.V.;
- the Company's operative and financial performance; and
- approving the Company's financial statements, business plan and budget.

During the period under review, the Board also carried out a robust assessment of the internal controls and the principal risks facing the Company and the airberlin group as a whole, including, with-out limitation, any applicable risks that would threaten the Company's and/or the airberlin group's business model, future performance, solvency or liquidity. A description of such internal controls, principal risks, and how such risks are monitored, managed and mitigated, is set out on pages 59 to 60 ("Internal Controls and Board Performance"), 34 to 47 ("Principal Risks and Uncertainties"), and 61 to 64 ("Audit Committee Report").

The Board, acting together with the Audit Committee, monitors the Company's and the airberlin group's risk management and internal control systems and carries out a review of their effectiveness on an on-going basis. The monitoring and review covers all material controls, including financial, operational and compliance controls.

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

Management Board

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

As at 31 December 2016, the Management Board comprised the following six members: Chief Executive Officer Stefan Pichler, Chief Financial Officer Dimitri Courtelis, Chief Commercial Officer Julio Rodriquez, Chief Strategy & Planning Officer Neil Mills, Chief Flight Operations Officer Oliver Iffert and Chief Human Resources Officer Dr Martina Niemann.

Effective 31 January 2017, Mr Pichler stepped down from his role of Chief Executive Officer and Management Board Chairman. As of 1 February 2017, Mr Thomas Winkelmann assumed both such roles. With effect from 15 September 2016, Mr Dimitri Courtelis was appointed Chief Financial Officer and Management Board member, after Mr Arnd Schwierholz resigned from this position and the Management Board as of the same date. With effect from 1 March 2017, Mr Julio Rodriguez resigned from the position of Chief Commercial Officer and Management Board member and instead became Chief Commercial Officer of NIKI Luftfahrt GmbH. As of the same date, Götz Ahmelmann was appointed Chief Commercial Officer and joined the Management Board. With effect from 1 March 2016, Mr Ciomperlik resigned from the position of Chief Production Officer and assumed the role of Director Group Synergies, both effective 1 March 2016. Oliver Lackmann resigned from the position of Chief Flight Operations Officer and the Management Board effective 1 March 2016. Effective 15 April 2016, Mr Lackmann assumed the position of managing director at the Austrian subsidiary, NIKI Luftfahrt GmbH. With effect from 1 March 2016, Mr Neil Mills joined the Management Board and assumed the position of Chief Strategy and Planning Officer. Effective 3 April 2017, Mr Neil Mills assumed the newly created position of Chief Transformation Officer, which replaces the previous Management Board position of Chief Strategy and Planning Officer. With effect from 1 March 2016 Mr Oliver Iffert joined the Management Board and assumed the position of Chief Operations Officer.

As Management Board Chairman and CEO in 2016, Mr Pichler was responsible for the airberlin group's leadership and operational and performance management, each within the guidelines set by the Board. The Management Board meets weekly, or more frequently as circumstances require. The Management Board's Chairman may choose to invite individuals who are not Management Board members, such as appropriate employees and/or external advisers, to attend its meetings. The Company Secretary, Michelle Johnson, serves as secretary to the Management Board.

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

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

Board Committees

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

AUDIT COMMITTEE

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

The Audit Committee report is set out on pages 61 to 64.

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

NOMINATIONS COMMITTEE

As of 31 December 2016, the Nominations Committee comprised the following two Non-Executive Directors: Dr Hans-Joachim Körber (as Committee Chairman) and James Hogan, and two independent Non-Executive Directors: Andries van Luijk and Johannes Zurnieden.

The Committee met once in 2016. The Committee is primarily responsible for assisting the Board in determining the Board's composition, member selection criteria and balance. In so doing, the Committee considers the knowledge, skill set, independence, experience, gender and diversity required for the Board. The Company believes that corporate boards perform better when they include the most qualified individuals who come from a range of perspectives and backgrounds. The Company continues to be committed to developing a diverse workforce and being an equal opportunity employer. The Nominations Committee therefore aims to achieve a balance of appointing competent and high-calibre individuals to the Board who together offer an appropriate mix of skills, experiences and backgrounds, while still ensuring that the best qualified person obtains the job.

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

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

Further, the Committee determines the succession plans for the Chairman of the Board and the Chief Executive Officer. The Committee meets as required, but no less than once per year. Director appointments are generally the result of a search process carried out by the Board and/or an independent professional consulting agency. The Company did engage the services of Heads!, a professional consultancy for Board appointments which is independent from the Company, in 2016.

NOMINATIONS COMMITTEE'S WORK IN 2016

In 2016, the Committee discharged its duties by, among other activities:

- ensuring that the Company maintained contact as necessary with its major shareholders about appointments to the Board;
- reviewing the Board's structure, size and composition (including the Board members' skills, knowledge and experience) and making recommendations to the Board with regard to adjustments;
- identifying and nominating future candidates for the Board's approval; and
- considering succession planning for directors and other senior executives taking into account the challenges and opportunities facing the Company and the skills and expertise which the Company will require in the future.

REMUNERATION COMMITTEE

As at 31 December 2016, the Remuneration Committee comprised Dr Hans-Joachim Körber as a Non-Executive Director and Johannes Zurnieden as independent Non-Executive Director. As of 30 June 2016, Nicholas Teller resigned from the Board and the Remuneration Committee. Pending the appointment of a further independent Non-Executive Director, Dr Hans-Joachim Körber as Chairman of the Board acts as the Chairman of the Remuneration Committee.

The Committee meets as required, but no less than once per year. The Remuneration Committee met twice in 2016. The Remuneration Committee makes recommendations to the Board on the Executive Director's and the Management Board members' compensation, including any bonuses, pension rights (where appropriate) and share-based compensation payments. The Committee oversees and reviews the airberlin group's remuneration principles. It reports its decisions to the Board and updates the Board on the airberlin group's overall remuneration policy. The Committee regularly reviews both the effectiveness of the airberlin group's remuneration policy in incentivising executives to enhance value for the shareholders and its competitiveness. The remuneration report on pages 65 to 82 sets out the Company's proposed remuneration policy and provides further details of the Committee's work.

FINANCE COMMITTEE

As at 31 December 2016, the Finance Committee comprised three Non-Executive Directors: Hans-Joachim Körber, Ali Sabancı and James Rigney. The Committee meets as required, but no less than twice per year. The Committee met three times during the first half of 2016. The Committee oversees and reviews the airberlin group's financial plans and policies and their implementation. Further, the Finance Committee supports the Board in various activities (such as investment, asset disposals or capital expenditure) that may have a material financial impact. It monitors hedging policy and activities and the financing budget and provides advice with respect to financing opportunities. The Finance Committee works closely with the Management Board and the Chief

Financial Officer in exercising its functions. Since June 2016, matters previously addressed by the Finance Committee have been addressed by the Board as a whole.

FINANCE COMMITTEE'S WORK IN 2016

In 2016, the Finance Committee discharged its duties by, among other activities:

- monitoring the financing budget together with projected cash flows and liquidity;
- consideration of various financing measures;
- assisting in formulating and implementing the hedging policy with respect to fuel and currency exchange risks and interest rate risk;
- monitoring the hedging policy for compliance with the treasury guidelines, as the same may be amended from time to time; and
- considering various aircraft transactions, in particular as it relates to the transition to an all Airbus fleet.

Board and Committee meetings

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

A table detailing the individual Directors' attendance at each of the Board and Committee meetings held in 2016 is set out below:

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Finance Committee
Total Meetings held	**16**	**4**	**1**	**2**	**3**
Meetings attended					
Dr Hans Joachim Körber chairman of the board, non-executive director	16	NA	1	2	3
Joachim Hunold non-executive director	15	NA	NA	NA	NA
James Hogan non-executive director, vice-chairman of the board	3	NA	0	NA	NA
Stefan Pichler Executive Director, Chairman of the Management Board	16	NA	NA	NA	NA
James Rigney non-executive director	9	NA	NA	NA	0
Ali Sabancı non-executive director	15	NA	NA	NA	2

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Finance Committee
Nicholas Teller* independent non-executive director	7	4	NA	2	3
Johannes Zurnieden independent non-executive director	15	NA	0	0	NA
Andries van Luijk independent non-executive director	14	NA	1	NA	NA
Dr Lothar Steinebach independent non-executive director	15	4	1	NA	NA

The above table does not always reflect guest participation in meetings.
"NA" means not applicable, because the relevant individual is not a member of the relevant Committee.
* Nicholas Teller resigned as a Non-Executive Director effective 30 June 2016. Dr Lothar Steinebach resigned as a Non-Executive Director effective 31 December 2016

Company Secretary

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

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

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

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

Political donations

In line with its established policy, the airberlin group made no political donations and did not incur any political expenditure pursuant to the authority granted at the 2016 AGM. The definition of political donations under the Companies Act 2006 is very broad and includes expenses legitimately incurred as part of the process of talking to legislative members and opinion formers to ensure that the airberlin group's issues and concerns are addressed and considered. These activities are not intended to support any political party and the airberlin group's policy is not to make any donations for political purposes in the normally accepted sense. Therefore, at the 2016 AGM, a resolution was passed giving the directors authority to make donations and incur expenditure in compliance with the terms of the Companies Act 2006. The authority is limited to a maximum amount of GBP 100,000 (or its Euro equivalent) per airberlin group company but so as not to exceed GBP 100,000 (or its Euro equivalent) for the entire airberlin group in aggregate.

CHANGE OF CONTROL

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

Shareholder relations

The Company believes that maintaining open communication lines with its shareholders is extremely important. The AGM provides all shareholders with the opportunity to communicate directly with the Board, including the chairmen of the Committees. In accordance with applicable law, the Company provides all shareholders with adequate notice of the AGM, at which the Chief Executive Officer reviews and presents the airberlin group's business and performance for the year and answers questions from the shareholders. At the AGM, the number of proxy votes cast on each resolution is made available, both at the meeting and, subsequently, on the Company's website. Each substantially separate issue is presented as a separate resolution. Additionally, the Company once again facilitated shareholder participation in the 2016 AGM by continuing to make shareholder and proxy voting services available online via the Company's website.

Lothar Steinebach served as the Senior Independent Non-Executive Director during 2016 and was available to shareholders if contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer may be inappropriate or unsuccessful.

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

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

Internal controls and Board performance

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

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

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

The Board has conducted a review of the effectiveness of the internal control system during the reporting year using the Audit Committee's support.

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

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

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

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

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

United Kingdom Corporate Governance Code

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

AUDIT COMMITTEE REPORT

Audit Committee

In 2016, the Audit Committee members comprised the following two independent Non-Executive Directors: Nicholas Teller (who resigned from the Board and the Audit Committee effective 30 June 2016) and Dr Lothar Steinebach (as Committee Chairman, who resigned from the Board and the Audit Committee effective 31 December 2016). The qualifications of the Audit Committee members in 2016 are set out on page 7 to 8. of this annual report, and the Board considers that at least one member of the Audit Committee had recent and relevant financial experience for the period under review in compliance with the UK Corporate Governance Code provision C3.1. With the election to comply with the principles of the UK Corporate Governance Code as it applies to smaller companies, the Audit Committee was effective 20 February 2017 comprised of Mr van Luijk (as Committee Chairman and independent Non-Executive Director), and Dr Körber and Mr Hunold (both as Non-Executive Directors).

Meetings

The Audit Committee met four times during 2016. Generally, the Committee meets at least three times a year or more frequently as circumstances may require and where appropriate, such meetings coincide with key dates in the Company's financial reporting cycle. A representative of the Company's external auditors and the Chief Financial Officer attend the Audit Committee's meetings. Board members or senior executives may attend meetings upon invitation from the Committee. Furthermore, the Company's external auditors, the head of internal audit and officers responsible for risk assurance may request a meeting with the Committee if they consider one to be necessary. The Committee's Chairman attends the Company's AGM in order to answer any questions on the Committee's activities and responsibilities.

Role

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

Audit Committee's work in 2016

In 2016, the Committee discharged its duties by, among other activities, conducting a review of:

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

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

Financial reporting and significant financial issues

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

Certain significant issues considered in the period under review are detailed below:

- In particular, the Committee considered the matters brought to its attention by the management, such as foreign exchange and hedge accounting, financing arrangements and aircraft transactions.
- The Committee also receives regular and detailed reporting as to the Company's financial and operational performance. The matters reviewed and assessed also included the Company's accounting principles.
- Annually the Committee reviews and agrees the audit plan with the auditors and areas of judgement included going concern, valuation of intangibles, deferred tax valuation and certain aircraft financing arrangements. Accounting standards on the impairment of intangible assets and the external auditors' opinion were taken into account. Following the advice of financial

advisors, the Committee during the audit of the 2015 accounts came to the conclusion that an impairment of intangible assets need not be taken.

- With respect to going concern, the Committee considered the Company's financing requirements and committed financing, the Company's ability to generate cash from operations, liquidity projections and historical performance. The Committee challenged management's assumptions and projections and considered sensitivities. The Committee also considered detailed reports from its external auditors. Following such discussions, the Committee recommended that the Board of Directors adopt the going concern statement for inclusion in the consolidated financial statements for the financial year 2016.

Effectiveness of external auditors

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

In 2016, the airberlin group paid the following amounts to KPMG: EUR 1.1 million for applicable audit services, EUR 0.3 million for audit-related services and EUR 0.4 million for non-audit related services.

Relationship with external auditors

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

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

- monitoring the external auditor's compliance with relevant ethical and professional guidance, the level of fees the Company pays compared to the overall fee income of the firm, office and partner and other related requirements.

Non-audit services

The Audit Committee's policy regarding external auditors is that external auditors carry out non-audit related services when it is work that they are best suited to perform and when it is in the Company's best interest that they do so. Non-audit-related services may include matters relating to borrowings, work in respect of mergers, acquisitions and disposals, various regulatory reports, and risk management services. Similarly, the external auditors are employed for tax and accounting work when they are best suited to undertake it and when it is in the Company's best interest that they do so. Under the Company's policy regarding the provision of non-audit services by external auditors, the Company has pre-approved certain categories of non-audit services as long as these are compatible with legal requirements and auditor independence.

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

Audit tendering

From October 2016 to April 2017, the Audit Committee conducted a tender for the Company's external audit contract in compliance with Article 16 of Regulation (EU) No. 537/2014. Following the evaluation of the submitted proposals against predefined, transparent and non-discriminatory selection criteria, the Audit Committee recommended to the Board that KPMG be reappointed as external auditors for 2017 and the Board will recommended the same appointment to shareholders at the 2017 AGM. KPMG have served as the Company's external auditors since 2006. The responsible partner at the external auditing firm has rotated periodically. The Committee will continue to consider the timing of the next formal tender in light of applicable regulatory requirements and any further changes in the regulatory framework. The Committee's choice of external auditors is not limited by any contractual obligations.

Andries B. van Luijk
Chairman of the Audit Committee

02 May 2017

DIRECTORS' REMUNERATION REPORT

Annual statement by the Chairman of the Board of Directors on behalf of the Remuneration Committee

Dear Shareholders,

On behalf of the Board of Directors and pending the appointment of a further independent Non-Executive Director in 2017, I am pleased to present the Directors' Remuneration Report for the year ended December 31, 2016.

The Directors' Remuneration Report describes the Company's implementation of its remuneration policy for Directors, and discloses the amount paid to Directors during the 2016 financial year. It has been prepared in accordance with the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It has also been prepared in line with the principal recommendations of the UK Corporate Governance Code. Those sections of the Directors' Remuneration Report that are subject to audit have been labeled appropriately below. The Directors' Remuneration Report will be put to an advisory shareholder vote at the annual general meeting in 2017.

MEMBERSHIP AND ACTIVITIES OF THE REMUNERATION COMMITTEE

As at 31 December 2016, the Remuneration Committee consisted of Johannes Zurnieden as independent Non-Executive Director and Dr Hans-Joachim Körber as Non-Executive Director. The Remuneration Committee members' biographies are set out on pages 7 to 8. The Remuneration Committee met twice in 2016.

The Remuneration Committee made the following key decisions and engaged in the following activities in 2016:

- considering German market standards and the UK Corporate Governance Code as they impact remuneration policy;
- reviewing the Company's remuneration policy, which had entered into effect as of 1 January 2015, including a review of its appropriateness and relevance;
- implementing the Company's remuneration policy;
- considering the compensation of the Company's new CEO effective as of 1 February 2017, Mr Thomas Winkelmann;
- considering the settlement and compensation package for Mr Stefan Pichler who, effective 31 January 2017, stepped down from his position of Chief Executive Officer and Management Board Chairman; and
- considering, in the context of the meetings of the Board of Directors, the settlement package for those members of the Management Board who have stepped down from their positions as well as the compensation package for those members of the Management Board who joined in 2016.

The circumstances in which such decisions were made and further details of each such decision are outlined below and in the Annual Report on Directors' Remuneration. A summary of the way in which the Remuneration Committee discharged its duties in 2016 is set out on page 65.

REMUNERATION POLICY

The Remuneration Committee has re-confirmed the Company's directors' remuneration policy which was first approved by shareholders at the 2014 AGM (the "Policy"). It is intended that the Policy (set out on pages 67 to 82, will continue to apply to any Executive Director and Non-Executive Directors, and will be put to shareholders for approval in a binding vote at the Company's annual general meeting in 2017.

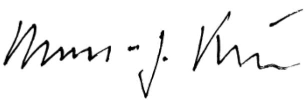
REMUNERATION DECISIONS

Effective 31 January 2017, Mr Pichler stepped down from his role of Chief Executive Officer and Chairman of the Management Board. Mr Thomas Winkelmann assumed both such roles, effective 1 February 2017. In connection with Mr Pichler's resignation from the Company and the termination of his service agreement as of 31 January 2017, Mr Pichler has been awarded a total severance payment of EUR 1.45 million gross and his obligation not to compete with the Company's business for six months following termination or expiry of his service contract has been lifted. In 2016 Mr Pichler received the guaranteed variable compensation of EUR 400,000 for his first year in office. He was not awarded any variable compensation for his second year in office.

The Company's Policy is intended to be flexible and to give the Remuneration Committee discretion in how the Policy is implemented to enable the Company to respond appropriately to circumstances, including changes in the market and the Company's performance. In order to secure the services of Thomas Winkelmann as the Company's Chief Executive Officer, the Remuneration Committee has used the discretion the shareholders afforded to it under the Policy to structure appropriately his remuneration package in response to circumstances that were both exceptional and genuinely unforeseen. Details of this remuneration package are set out in the directors' remuneration policy on pages 67 to 82.

ENGAGEMENT

In pursuing the goals set out in the Policy and implementing the Policy, the Remuneration Committee will remain engaged in transparent and open dialogues with shareholders on an ongoing basis and will closely follow voting outcomes. The Remuneration Committee will continue to review all feedback it receives from shareholders and other stakeholders and looks forward to continued dialogues in 2017. The Remuneration Committee continues to believe that its approach to remuneration is aligned with the Company's business strategy and goal of optimizing shareholder value. We thank you for your continued support.



Dr Hans Joachim Körber
On behalf of the Remuneration Committee, Chairman of the Board of Directors

02 May 2017

DIRECTORS' REMUNERATION POLICY

The Company's directors' remuneration policy, which was approved by shareholders at the 2014 AGM and which entered into effect on 1 January 2015, is, subject to editorial amendments, set out again for convenience below. The Board will recommend to shareholders at the AGM 2017 to confirm this policy.

Key elements of remuneration policy

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

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

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

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including through the exercise of any discretions available to it) where such terms were agreed before the Policy took effect or before such individual joined the Board.

There may be exceptional circumstances when it is in shareholders' best interests for the Remuneration Committee to make arrangements that are outside the terms of the approved Remuneration Policy. The Remuneration Committee therefore retains discretion to make alterations to the Remuneration Policy without shareholder approval in response to circumstances that are both exceptional and genuinely unforeseen. The Remuneration Committee would disclose them in full after they have been implemented.

I. FUTURE POLICY TABLE

	Purpose	How it operates	Maximum Payable	Performance Metrics
Salary	An executive director's salary is intended to reflect the director's level of responsibility and contribution to the Company in the competitive environment.	Salary is paid under the executive director's service contract with the Company. The basic salary is reviewed periodically by the Remuneration Committee and is based, among other factors, on the following: (a) an appraisal of the relevant executive and his or contribution to the business; (b) the Company's remuneration policy; and (c) the competitive environment and the marketplace for companies of similar complexity, size, and global reach.	Salaries for executive directors should be set at a level that enables airberlin to recruit or retain individuals of the necessary calibre. The basic salary may be increased during the life of the remuneration policy. In the ordinary course, any annual increases would not exceed inflation plus 5 per cent but the remuneration committee reserves the right in exceptional circumstances to make larger increases, such as there being a material change to a director's role or responsibilities.	N/A
Taxable benefits	Non-cash benefits are in line with local market practice and are designed to be sufficient to attract and retain high-calibre talent.	Executive directors are provided with benefits including a Company telephone, car and telecommunications equipment. Executive directors are entitled to reduced or free air transportation on flights operated by the Company or its affiliates. Executive directors have the benefit of directors' and officers' insurance and accident insurance, at appropriate levels, with respect to any legal actions taken against the directors and officers in the course of exercising their respective duties. The Company reserves the right to pay any tax liability if the Company settles on behalf of the director.	Aggregate cost of annual non cash benefits for each Director and his dependants is expected to be Euro 25,000. The actual cost may vary depending on the terms the Company is able to secure and the flights taken.	N/A
Short-term incentives	An executive director's annual bonus is intended to incentivise him or her to achieve certain annual operational and financial goals, thereby aligning the relevant executive director's interests with those of the Company's shareholders.	The Remuneration Committee determines, on an annual basis, the payment of any such bonus compensation and, in deciding to award any such bonus, considers a weighted combination of several factors. Subject to certain exceptions any variable compensation under target arrangements set by the Remuneration Committee and paid to an executive director will be divided equally into cash	An executive director's bonus is capped at 225 per cent of his annual base salary.	The variable compensation will depend on a basket of measures with variant weighting, depending upon the Company's short term financial goals. These may be adjusted from year to year but will typically be comprised of EBIT, operational performance targets and individual targets to reflect the strategic objectives of the group. The performance metrics and targets used will, to

	Purpose	How it operates	Maximum Payable	Performance Metrics
		and shares, the latter of which will generally be subject to a holding period of three years.		the extent they are not commercially sensitive, be disclosed retrospect-tively in the Company's annual remuneration report.
Long-term incentives	The Share Incentive Plan has been developed to incentivise and retain employees and facilitate employment.	Awards may be granted by the Remuneration Committee annually. The Committee will have regard to the performance of the director and the air berlin group when granting awards, to determine the appropriate quantum, structure for the award and performance conditions that apply.	Awards may be made over shares with a value of no more than 200 per cent of base salary (measured as at the date of grant).	The Remuneration Committee has no current intentions to make awards under the Share Incentive Plan to executive directors but reserves the right to do so if it considers it appropriate for any reason. The Remuneration Committee would set performance conditions at the date of grant to reflect the strategic objectives of the group at that date. Such performance conditions would be stretching and designed to promote the long-term success of the Company.
Pension and other benefits	Provision of retirement and survivor benefits helps to attract and retain high calibre talent.	Defined pension benefits and survivor benefits may be granted by the Remuneration Committee. Any pension benefits would be available upon the director reaching age 65 or, in the case of permanent inability to work. Further, the Company may grant the director's spouse and each of his children a one-off pension payment in an amount to be agreed. Claims are excluded if the Director dies after his 70th birthday or such other agreed time.	The annual entitlement cannot exceed 50 per cent of the executive director's base compensation amount for that year. The directors are not required to make any contributions in respect of their benefits.	N/A
Other Benefits	Protection of the business against competition after termination of employment.	The sole Executive Director receives a payment in consideration for a restrictive covenant not to compete with the Company's business for one year following termination or expiry of the service contract. In consideration for such obligation, the Executive Director is entitled to receive 50 per cent of his fixed remuneration for that year	50 per cent of fixed remuneration for the year.	N/A
Recovery or withholding	None of the elements of remuneration set out in this table are subject to recovery or withholding.			

The Remuneration Committee exercised its discretion to make alterations to the Remuneration Policy in respect of the remuneration package for Mr Winkelmann, on the basis that the circumstances prior to agreeing the remuneration package with Mr Winkelmann were both exceptional and genuinely unforeseen. The Remuneration Committee has balanced the Company's need to secure Mr Winkelmann's services at this critical time with a desire to ensure he is not rewarded for failure. The following terms of Mr Winkelmann's remuneration package shall form part of the remuneration policy:

In order to compensate Mr Winkelmann for disadvantages relating to his pension incurred as a result of joining the Company, the Company granted Mr Winkelmann a one-off payment in the amount of EUR 300,000, payable 1 February 2017.

Mr Winkelmann was granted an annual gross basic salary of EUR 950,000 and a maximum variable payment (as determined by the Remuneration Committee) of EUR 950,000 subject to achievement of certain targets. Mr Winkelmann's variable compensation will be settled in cash.

Mr Winkelmann is entitled to a one-off fixed minimum bonus of EUR 400,000 his first year in the office, payable 31 January 2018. Such payment will be set off against any other annual bonus paid to Mr Winkelmann in the course of his employment with the Company.

Mr Winkelmann's service contract has an indefinite term with a notice period of six months for either party to take effect no earlier than 31 January 2019. Where the Company serves ordinary notice to terminate (ordentliche Kündigung) the employment contract which takes effect prior to 31 January 2021, Mr Winkelmann will be entitled to receive a severance payment equal to the total amount of his contractual base salary which would otherwise be payable for the period from the date the termination becomes effective up to 31 January 2021.

Where the Company has terminated the employment contract and there is a dispute between the parties as to the effectiveness of the termination of employment and/or whether Mr Winkelmann has any outstanding claims to remuneration or compensation against the Company, the Company will be required to continue to pay Mr Winkelmann's contractual entitlements into an escrow account (EUR 400,000 on 31 January 2018; and his monthly salary and benefits) up to a maximum of EUR 4,500,000 (taking into account any other amounts received by Mr Winkelmann in connection with his employment with the Company), unless the parties either reach a settlement agreement or a court of first instance passes a judgment on this matter such that a lesser amount is payable. On reaching any settlement or receiving the court judgment, Mr Winkelmann will become entitled to the relevant amount, if any, from the escrow account.

In order to secure the Company's payment obligations under the service agreement for the period up to 31 January 2021, an irrevocable bank guarantee has been provided in favour of Mr Winkelmann in the amount of up to EUR 4,500,000.

The airberlin group's policy is for non-executive directors' remuneration to comprise the following elements:

	Purpose	How it operates	Maximum Payable
Fee	The fee is intended to be modest yet competitive enough to attract, retain and develop high-calibre talent.	Fee is payable under the director's appointment letter with the Company. The fee is reviewed annually by the Remuneration Committee which may, in its sole discretion, increase the fee to reflect inflation, cost of living, exchange rates, performance or any other relevant factors.	The fee may be increased to account for inflation each year during the life of the remuneration policy.
Taxable benefits	Non-cash benefits are in line with local market practice.	Non-executive directors are entitled to reduced or free air transportation on flights operated by the Company or its affiliates. Non-executive directors have the benefit of directors' and officers' insurance and accident insurance, at appropriate levels, with respect to any legal actions taken against the directors and officers in the course of exercising their respective duties. The Company reserves the right to pay any tax liability if the Company settles on behalf of the director.	
Recovery or withholding	None of the elements of remuneration set out in this table are subject to performance metrics, recovery or withholding.		

Non-executive directors do not have service agreements with the airberlin group and do not receive pensions, benefits or any variable or incentive compensation (including bonuses or share-based compensation). Non-executive directors' remuneration is not linked to any performance measures and the Company does not currently have any plans to modify the remuneration of its non-executive directors to include any performance measures.

II. NEW RECRUITS POLICY

The remuneration package for any new director would, so far as practicable, be consistent with the policy set out in the table on pages 68 to 69. In addition, the Company would consider including the following elements to the extent they were considered necessary or expedient in securing the services of a new director:

(a) buy out of existing share awards or long term incentives provided that any such compensation is no more valuable than the award being given up (based on a fair and reasonable assessment by the Company);

(b) reasonable relocation expenses for the director and his family; and

(c) tax equalisation arrangements.

The maximum potential value of any short-term variable remuneration that may be awarded to any new director is 225 per cent of his / her basic salary. In addition, a new director may be entitled to awards under the Share Incentive Plan (up to the maximum allowed under that plan). This would not include any amounts paid to buy out share awards or long term incentives from a previous employer.

III. SERVICE CONTRACTS POLICY

A service contract governs the Company's relationship with its Executive Director. Appointment letters govern its relationship with its Non-Executive Directors.

The Company anticipates that the service contract of any new executive director would be on terms that were no more onerous for the Company as to the term and notice period than the contract of the current Executive Director. Other terms would be as set out in the New Recruits Policy.

None of the appointment letters entitles any of the Non-Executive Directors to receive any compensation upon termination of their respective appointment letter or their resignation or participate in any bonus awards, pension benefits or share schemes.

IV. PAYMENTS FOR LOSS OF OFFICE POLICY

A. Notice Periods

It is the airberlin group's policy that, under normal circumstances, executive directors' service contracts with the Company be for an indefinite term and terminable by either party on 24 months' written notice or by the Company with immediate effect by payment in lieu of notice (where such payment in lieu of notice is permissible under applicable law and shall be solely in respect of annual base salary under the service contract).

B. Payments on Termination

Where the Company terminates the employment and/or does not require the director to work out his notice period, the following principles will apply to the extent permissible under applicable law:

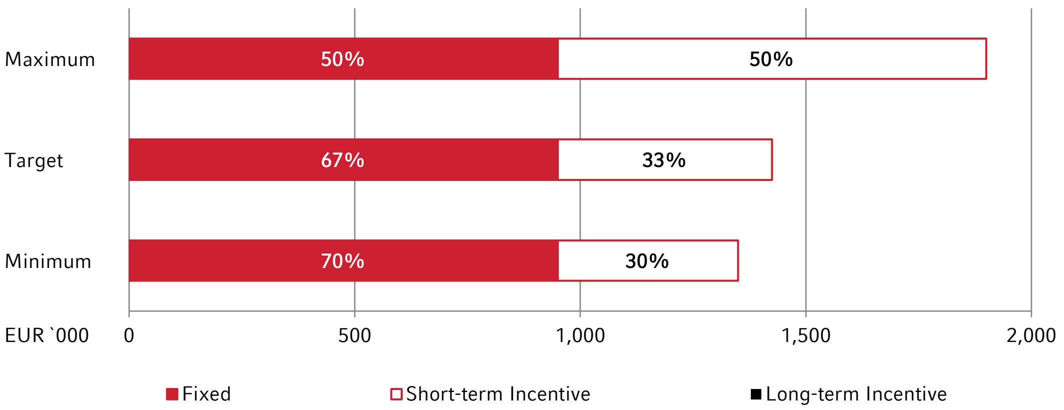
Salary	Salary for unserved notice period
Annual Bonus	A *pro rata temporis* payment is made in respect of annual bonus for the financial year in which the director ceases employment. Any shares subject to a holding period are released from that holding period.
Benefits	Payment of a cash sum in lieu of benefits for any unserved notice period may be made. Calculated by reference to the value of benefits in the previous financial year.
Long Term Incentive	Determined in accordance with the rules of any plan.

The Executive Director's service contract shall release him upon a change of control from the otherwise applicable three-year holding period for any bonus paid in shares.

Illustration of the application of the remuneration policy

The following bar chart sets out for the Executive Director the minimum, target and maximum remuneration receivable by the Executive Director for his first year in office. Each bar is divided into fixed, short-term and long-term remuneration, and shows the percentage of the total comprised by the parts and the total value of remuneration expected for each bar.

Executive Director: Application of Remuneration Policy



Basis of Calculation and Assumptions

- The one-off payment in the amount of EUR 300,000 paid to the Executive Director to compensate him for pension disadvantages arising as a result of joining the Company is not included.
- The charts do not include the value of any benefits other than base salary and bonus.
- Bonus for target performance assumes a 50 per cent pay-out.

Consideration of employment conditions elsewhere in the airberlin group

The Remuneration Committee analyses the pay and employment conditions of airberlin group employees (other than directors) and takes these into account when determining directors' compensation to ensure that changes in pay across the airberlin group as a whole are consistent with changes in the proposed pay for management.

The Company does not consult with employees in a formal manner on matters of the remuneration policy for directors.

The Remuneration Committee intends to take into account benchmarking data in determining the appropriate level of salary and variable compensation for its Executive Directors.

Consideration of shareholder views

The Company consulted with major shareholders in formulating the remuneration policy set out in this report. The remuneration committee is grateful for the views shared and to the extent possible has sought to reflect these views in the terms of the policy itself.

Annual report on directors' remuneration

RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

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

The Committee discharges its duties by, inter alia:

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

During the period under review, the Remuneration Committee did not obtain advice from any external advisors with respect to the directors' remuneration policy.

The Committee has full authority from the Board to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

EXECUTIVE DIRECTORS' REMUNERATION

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

The compensation package for the Executive Directors who served on the Board in 2015 comprised a combination of a basic salary, a variable bonus scheme and benefits in kind. Basic salaries are reviewed as required and are based, among other factors, on the following factors:

a) an appraisal of the relevant executive and his or her contribution to the business;

b) the Company's remuneration policy; and

c) the competitive environment and the marketplace for companies of similar complexity, size, and global reach.

The basic gross fixed salaries of the Executive Director who served on the Board in 2016 is set out in the table below:

Name	Basic gross fixed remuneration in 2016 (EUR)
Stefan Pichler	950,000*

* As part of his contribution to the airberlin group's restructuring, Stefan Pichler has waived ten percent (10%) of this basic salary for the time period from 1 April 2016 to 31 December 2016.

Subject to meeting pre-defined benchmarks, the Executive Director who served on the Board in 2016 was entitled to receive an annual bonus as determined by the Remuneration Committee. Such bonus was capped at pre-determined maximum amounts established by the Committee. The bonus was intended to incentivise the Executive Director to achieve certain annual operational and financial goals, thereby aligning the relevant executive's interests with those of the Company's shareholders.

The Remuneration Committee determines, on an annual basis, the payment of any such bonus compensation and, in deciding to award any such bonus, considers a weighted combination of several factors.

A crucial tenet of the Company's bonus policy is that no bonus should be awarded if, among other factors, the airberlin group has not achieved certain goals set by the Remuneration Committee.

For 2016, Mr Pichler has not been awarded any variable compensation.

Service Contracts

The service contract of Stefan Pichler, the Executive Director of the Company between 1 February 2015 and 31 January 2017, contains an obligation not to compete with the Company's business for six months following termination or expiry of the service contract. Such an obligation is also included in the service contract of Thomas Winkelmann, the Executive Director of the Company since 1 February 2017.

Additional Benefits

Stefan Pichler, the Executive Director of the Company during the period under review was provided with a Company telephone, car and telecommunications equipment. Additionally, Stefan Pichler, his wife and children below the age of 24 years were entitled to reduced or free air transportation on flights operated by the Company or its affiliates. Stefan Pichler has the benefit of directors' and officers' insurance and accident insurance, at appropriate levels, with respect to any legal actions taken against the director in the course of exercising its duties.

No Pension Entitlements

Mr Pichler was not entitled to pension benefits in 2016.

Percentage change in remuneration of CEO

The following table shows the percentage change in remuneration comprising basic salary, benefits and bonus between the financial year ended 31 December 2015 and the financial year ended 31 December 2016 for the CEO compared to the average of all airberlin group employees in Germany during each year.

	Percentage change of CEO against the previous year	Average percentage change for employees of the Company taken as a whole against the previous year
Salary/Fees	–12.5%	+5%
Taxable Benefits	+3.2%	–4.3%
Short-term Incentives	0%[1]	–77%[2]
Other Benefits: Total Estimated Value of Benefits Received Other Than in Cash That Are Emoluments	–80%	0%

1 No short-term incentives were awarded in 2015 and 2016.
2 In 2015, sales incentives for 38 employees were awarded (and disbursed at the beginning of 2016), while in 2016, sales incentives for 44 employees will be awarded (and disbursed partially in 2017).

Remuneration Policy for 2016 and Beyond

In implementing the Policy in 2016 and beyond, structuring Mr Stefan Pichler's and Mr Thomas Winkelmann's arrangements, the Remuneration Committee has used the flexibility and allowance of discretion afforded to it. The Board currently anticipates that the Policy will be applied when determining basic salary, bonuses, pensions and all other benefits for any other executive directors in 2017. The Board currently expects that the Remuneration Committee, using its discretion, will determine the level of any annual bonus award made by taking into consideration the airberlin group's financial and operational performance.

NON-EXECUTIVE DIRECTORS' REMUNERATION

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

Non-Executive Directors do not enter into service contracts with the Company but instead are paid a fee for the provision of their services under the terms of appointment letters. Specifically, in 2016 each Non-Executive Director is paid EUR 50,000 a year and EUR 25,000 a year for each Committee that the relevant Non-Executive Director chairs. Messrs Rigney, Hogan and Zurnieden chose to waive such fees for 2016 in their entirety. Non-Executive Directors are not eligible for share options or pension benefits.

DIRECTORS' SHAREHOLDINGS (SUBJECT TO AUDIT)

The following table shows details of the Directors' current shareholdings as of 31 December 2016:

Director	Beneficially owned shares*
Dr Hans-Joachim Körber	203,000
Joachim Hunold	2,280,004
Ali Sabancı	14,045,031
Johannes Zurnieden	1,350,268

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

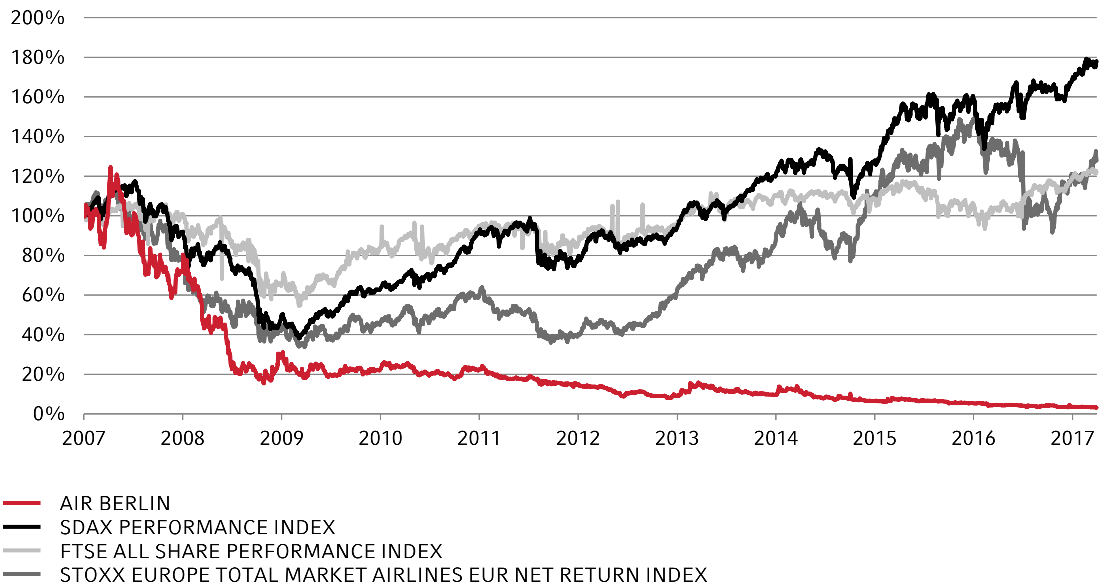
** This number has been updated from the number of 2,275,004 given last year in order to correct a clerical error whereby last year's figure did not account for 5,000 shares owned by a connected person.

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

PERFORMANCE GRAPH AND TABLE

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

THE AIRBERLIN SHARE TOTAL SHAREHOLDER RETURN VS. THE SDAX, STOXX TOTAL MARKET AIRLINES AND FTSE ALL SHARE INDICES (2007 = 100; SOURCE: REUTERS)



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

	2011	2012	2013	2014	2015	**2016**
Total Remuneration (in Thousand Euros)	4,805	1,083	1,057	830	1,046	**1,311**
Short Term Incentive payout (% against Maximum)	0	0	0	0	0	**0**
Long Term Incentives payout (% against Maximum)1	NA	NA	NA	NA	NA	**NA**

"NA" means not applicable.
1 No long-term incentives were awarded in 2016

RELATIVE IMPORTANCE OF SPEND ON PAY

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

(In thousand Euros, except average number of employees)	**2016**	2015	Percentage Change
Employee costs	**624,870**	589,304	6%
Average number of employees	**8,601**	9,065	–5.1%
Revenues	**3,785,410**	4,081,756	–7.2%
Result from operating activities	**–667,051**	–306,953	n.m.
Result before tax	**–806,919**	–430,668	n.m.
Result for the period	**–781,895**	–446,636	n.m.
Dividends	**0**	0	0%

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

DIRECTORS' REMUNERATION (SUBJECT TO AUDIT)

The Directors' remuneration during 2016 was: Messrs Rigney, Hogan and Zurnieden chose to waive such fees for 2016 in their entirety. Non-Executive Directors are not eligible for share options or pension benefits. Each Non-Executive Director was in 2016 paid EUR 50,000 a year and EUR 25,000 a year for each Committee that the relevant Non-Executive Director chairs.

The Directors' remuneration during 2016 was:

EURk	Basic Salary and Fees Paid or Receivable		Taxable Benefits[8]		Short-term incentives	
	2016	2015	**2016**	2015	**2016**	2015
Executive Directors:						
Wolfgang Prock-Schauer[1]	NA	134[2]		4		
Stefan Pichler[3]	879	871	32	27	0	0
Aggregate emoluments	**879**	**1,005**	**32**	**31**	**0**	**0**
Non-Executive Directors:						
Dr Hans-Joachim Körber	179[10]	179[10]	4	4	0	0
Joachim Hunold	60[10]	60[10]	5	4	0	0
Ali Sabancı	50	50	0	0	0	0
Heinz-Peter Schlüter[4,6]	NA	15[10]	0	1	0	0
Nicholas Teller[4]	45[10]	89[10]	1	1	0	0
Johannes Zurnieden[4]	0[5]	0[5]	0	0	0	0
James Hogan	0[5]	0[5]	0	0	0	0
James Rigney	0[5]	0[5]	0	0	0	0
Dr Lothar Steinebach[4]	89[10]	89[10]	1	1	0	0
Andries B. van Luijk[4]	50	50	0	0	0	0
Alfred Tacke[4,7]	0	74[10]	0	0	0	0
Aggregate emoluments	**473**	**606**	**11**	**11**	**0**	**0**

1 Wolfgang Prock-Schauer served as the sole Executive Director on the Board and Chief Executive Officer until 1 February 2015, when Stefan Pichler replaced him in each such capacity. As of 1 February 2015, Mr Prock-Schauer re-assumed his position as Chief Strategy and Planning Officer in the Management Board until 28 February 2015 when he resigned from the Company.
2 In addition, Mr Prock-Schauer has received a severance payment of EUR 1.1 million gross pursuant to a termination agreement entered into in February 2015.
3 Joined the Board on 1 February 2015 and retired on 31 January 2017.
4 Independent Non-Executive Director.
5 The relevant Director has waived his remuneration for the relevant year in its entirety.
6 Retired from the office on 10 February 2015.
7 Joined the Board on 10 February 2015 and retired from the office effective 31 December 2015.
8 Company car, health care allowance, reduced or free air transportation on flights.
9 Telephone connection fee and foreign health, accident and luggage insurance.
10 Including 19% VAT.

Long-term incentives		Other Benefits[9]		**Total**	
2016	2015	**2016**	**2015**	**2016**	2015
0	0	0	0	0	138
0	0	0	10	911	908
0	**0**	**0**	**10**	**911**	**1,046**
0	0	0	0	183	183
0	0	0	0	65	64
0	0	0	0	50	50
0	0	0	0	0	16
0	0	0	0	46	90
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	90	90
0	0	0	0	50	50
0	0	0	0	0	74
0	**0**	**0**	**0**	**484**	**617**

VOTING AT AGM 2015

The following table shows the results of the advisory vote on the 2015 Directors' remuneration report at the 15 June 2016 AGM.

	Total number of votes	% of votes cast
For	57,996,088	98.6
Against	833,258	1.4
Total votes cast (excluding withheld votes)	**58,829,346**	**100**
Votes withheld*	274,532	
Total votes cast (including withheld votes)	**60,774,884**	

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

By order of the Board

Dr Hans-Joachim Körber
Chairman of the Board on behalf of the Remuneration Committee

02 May 2017

DIRECTORS' REPORT

Air Berlin PLC is a public limited company incorporated under the laws of England and Wales and registered as such in the English commercial register under the number 5643814. The registered office of Air Berlin PLC is at c/o Browne Jacobson LLP, 6 Bevis Marks, Bury Court, London, EC3A 7BA Great Britain. Air Berlin PLC is the parent company of the airberlin group.

The Directors present the Annual Report and the annual and consolidated financial statements for the financial year ending on 31 December 2016. References to "airberlin", "airberlin group", "Company", "we" or "our" refer to Air Berlin PLC or to Air Berlin PLC and its subsidiaries where appropriate.

Changes in the composition of the Board of Directors are set out on page 51.

The Directors' Report, which has been prepared in accordance with the requirements of the Companies Act 2006, comprises the Corporate Governance Report (see pages 51 to 60) and the Statement of Directors' Responsibilities in respect of the preparation of the Annual Report and the annual and consolidated financial statements (see page 91).

The Company has chosen, in accordance with Section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in the Directors' Report:

- an indication of likely future developments in the business of the Company and its subsidiaries (see page 48 to 50 = section entitled "Report on forecasts and outlook for the Group" = pages 54 – 56 in 2015 report);
- important events affecting the Company and its subsidiaries which have occurred since the end of the financial year (see page 50 = section entitled "Supplementary Report" = page 57 in 2015 report); and
- Carbon emissions (see page 32).

Shareholder information

CAPITAL

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

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

VOTING RIGHTS AND RESTRICTIONS ON THE TRANSFER OF SHARES

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

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

Information regarding the major shareholders and the shareholder structure by nationality as at 31 December 2016 is contained on pages 12 – 13 of this Annual Report.

REGISTERED OFFICE

c/o Browne Jacobson LLP, 6 Bevis Marks, Bury Court, London, EC3A 7BA, United Kingdom

SHAREHOLDER REGISTRAR

Link Market Services GmbH, Mergenthalerallee 15-21, 65750 Eschborn, Germany; Mailing address: P.O. Box 1207, 65760 Eschborn

COMPANY REGISTRATION NUMBER

5643814

AUDITOR

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

Berlin, 02 May 2017

Thomas Winkelmann
Chief Executive Officer

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL 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 are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. 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 judgements 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. They have 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.

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

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.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the strategic report and management report and directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Going concern

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

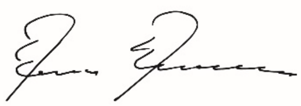
Statement of the Directors regarding the disclosure of information to auditors

Each Director in office at the date the Directors' Report is approved confirms, in accordance with Section 418 of the Companies Act 2006: so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

The Annual Report on pages 2 to 163 was approved by the Board of Directors and authorised for issue on 02 May 2017 and signed on behalf of the Board of Directors by:

Berlin, 02 May 2017



Thomas Winkelmann
Chief Executive Officer

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

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2016 set out on pages 91 to 163. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 85 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's and parent company's ability to continue as a going concern. The group is reliant on a letter of support from a significant shareholder; as with such letters there remains a doubt whether this can be enforced in the event that such a need arises. This, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the group's and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 51 to 60 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures ("the specified Corporate Governance information") is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report, the Directors' Report and the Corporate Governance Statement:

- we have not identified material misstatements in the Strategic Report, the Directors' Report, or the specified Corporate Governance information;
- in our opinion, the Strategic Report and the Directors' Report have been prepared in accordance with the Companies Act 2006; and
- the Corporate Governance Statement has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Darren Turner
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill,
Snowhill Queensway
Birmingham
B4 6GH

02 May 2017

FINANCIAL STATEMENTS

Air Berlin PLC

CONSOLIDATED INCOME STATEMENT

for the period ended 31 December 2016

EURk	Note	1/16–12/16	1/15–12/15
Revenue	20	**3,785,410**	4,081,756
Other operating income	21	**7,548**	50,823
Expenses for materials and services	22	**(2,792,982)**	(3,064,255)
Personnel expenses	23	**(624,870)**	(589,304)
Depreciation, amortisation and impairment losses	5, 6	**(85,905)**	(45,984)
Other operating expenses	24	**(956,252)**	(739,989)
Operating expenses		**(4,460,009)**	(4,439,532)
Result from operating activities		**(667,051)**	(306,953)
Financial expenses	25	**(112,492)**	(89,948)
Financial income	25	**1,050**	976
Result on foreign exchange and derivatives, net	25	**(29,518)**	(31,529)
Net financing costs		**(140,960)**	(120,501)
Share of at equity investments, net of tax	26	**1,092**	(3,214)
Result before tax		**(806,919)**	(430,668)
Income tax result	27	**25,024**	(15,968)
Result for the period		**(781,895)**	(446,636)
of which: attributable to hybrid capital investors		**25,964**	24,330
of which: attributable to Air Berlin PLC shareholders		**(807,859)**	(470,966)
Basic earnings per share in €	13	**(6.93)**	(4.04)
Diluted earnings per share in €	13	**(6.93)**	(4.04)

Consolidated Statement of other comprehensive income	Note	1/16–12/16	1/15–12/15
Result for the period		**(781,895)**	(446,636)
Foreign currency translation reserve		**786**	1,434
Effective portion of changes in fair value of hedging instruments		**56,910**	(84,543)
Net change in fair value of hedging instruments transferred from equity to profit or loss		**69,302**	157,282
Income tax on other comprehensive income	27	**(14,747)**	(1,860)
Remeasurement of net defined liability		**(1,164)**	(1,475)
Other comprehensive income for the period, net of tax		**111,087**	70,838
Total comprehensive income		**(670,808)**	(375,798)
of which: attributable to hybrid capital investors		**25,964**	24,330
of which: attributable to Air Berlin PLC shareholders		**(696,772)**	(400,128)

Air Berlin PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Assets			
Non-current assets			
Intangible assets	5	**208,985**	405,031
Property, plant and equipment	6	**119,104**	182,956
Trade and other receivables	9	**72,624**	56,273
Positive market value of derivatives	29	**3**	0
Net defined benefit asset	14	**263**	176
Deferred expenses	10	**55,343**	52,768
At equity investments	7	**2,106**	2,848
Non-current assets		**458,428**	700,052
Current assets			
Inventories	8	**54,637**	64,654
Trade and other receivables	9	**360,030**	387,894
Positive market value of derivatives	29	**51,716**	26,311
Deferred expenses	10	**66,842**	50,856
Assets held for sale	5, 6	**170,583**	23,419
Cash and cash equivalents	28	**220,317**	165,235
Current assets		**924,125**	718,369
Total assets		**1,382,553**	1,418,421

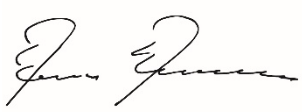
Air Berlin PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Equity and liabilities			
Shareholders' equity			
Share capital	11	**29,273**	29,273
Share premium	11	**435,085**	435,085
Equity component of convertible bonds	16	**597**	597
Other capital reserves	11	**217,056**	217,056
Retained earnings		**(2,527,025)**	(1,719,166)
Hedge accounting reserve, net of tax		**28,911**	(82,554)
Foreign currency translation reserve	11	**5,874**	5,088
Remeasurement of the net defined benefit obligation	14	**(11,615)**	(10,451)
Equity attributable to shareholders of the Company		**(1,821,844)**	(1,125,072)
Equity attributable to the hybrid capital investors	12	**351,650**	325,686
Total equity		**(1,470,194)**	(799,386)
Non-current liabilities			
Interest-bearing liabilities due to aircraft financing	16	**0**	28,748
Interest-bearing liabilities	16	**1,161,016**	980,877
Provisions	15	**89,427**	6,203
Trade and other payables	18	**84,072**	54,406
Deferred tax liabilities	27	**9,046**	21,666
Non-current liabilities		**1,343,561**	1,091,900
Current liabilities			
Interest-bearing liabilities due to aircraft financing	16	**0**	23,323
Interest-bearing liabilities	16	**234,795**	10,181
Tax liabilities		**1,867**	2,507
Provisions	15	**89,866**	47,426
Trade and other payables	18	**560,225**	511,344
Negative market value of derivatives	29	**2,446**	114,217
Deferred income		**47,013**	42,996
Advanced payments received	19	**465,239**	373,913
Liabilities held for sale	5, 19	**107,735**	0
Current liabilities		**1,509,186**	1,125,907
Total equity and liabilities		**1,382,553**	1,418,421

The financial statements were approved by the Board of Directors and authorised for issue on 28 April 2017 and signed on behalf of the Board:



Thomas Winkelmann
Chief Executive Officer

Air Berlin PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

EURk	Share capital	Share premium	Equity component of convertible bonds	Other capital reserves	Retained earnings
Balances at 31 December 2014	**29,273**	**435,085**	**597**	**217,056**	**(1,248,200)**
Distribution to hybrid capital investors					
Total transactions with shareholders and hybrid capital investors	**0**	**0**	**0**	**0**	**0**
Loss for the period					(470,966)
Other comprehensive income					
Total comprehensive income	**0**	**0**	**0**	**0**	**(470,966)**
Balances at 31 December 2015	**29,273**	**435,085**	**597**	**217,056**	**(1,719,166)**
Loss for the period					(807,859)
Other comprehensive income					
Total comprehensive income	**0**	**0**	**0**	**0**	**(807,859)**
Balances at 31 December 2016	**29,273**	**435,085**	**597**	**217,056**	**(2,527,025)**

Hedge accounting reserve, net of tax	Foreign currency translation reserve	Reasurement of the net defined benefit obligation	Equity attributable to the share-holders of the Company	Equity attributable to the hybrid capital investors	Total equity
(153,433)	**3,654**	**(8,976)**	**(724,944)**	**309,356**	**(415,588)**
				(8,000)	(8,000)
0	**0**	**0**	**0**	**(8,000)**	**(8,000)**
			(470,966)	24,330	(446,636)
70,879	1,434	(1,475)	70,838		70,838
70,879	**1,434**	**(1,475)**	**(400,128)**	**24,330**	**(375,798)**
(82,554)	**5,088**	**(10,451)**	**(1,125,072)**	**325,686**	**(799,386)**
			(807,859)	25,964	(781,895)
111,465	786	(1,164)	111,087		111,087
111,465	**786**	**(1,164)**	**(696,772)**	**25,964**	**(670,808)**
28,911	**5,874**	**(11,615)**	**(1,821,844)**	**351,650**	**(1,470,194)**

Air Berlin PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Result for the period		**(781,895)**	(446,636)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	5, 6	**37,970**	43,512
Impairment losses on property, plant and equipment	6	**5,212**	2,472
Disposal in cause of business restructuring	5	**42,722**	0
Loss (Gain) on disposal of long-term assets	21, 24	**92,065**	(30,088)
Decrease in inventories		**10,017**	275
(Increase) Decrease in trade accounts receivables		**(48,134)**	2,502
(Increase) Decrease in other assets and prepaid expenses		**(62,013)**	58,050
Deferred tax (benefit) expense	27	**(27,367)**	12,825
Increase in provisions		**125,577**	5,717
Increase in trade accounts payable		**64,004**	66,079
Increase in other current liabilities and deferred income		**29,074**	12,125
Result on foreign exchange and derivatives, net	25	**29,518**	31,529
Interest expense and guarantee fee	25	**112,608**	86,457
Interest income	25	**(1,050)**	(976)
Income tax expense	27	**2,344**	3,143
Share of (loss) profit of equity investments	26	**(1,092)**	3,214
Other non-cash changes		**(3,109)**	(1,322)
Cash generated from operations		**(373,549)**	(151,122)
Interest paid		**(96,162)**	(75,953)
Distribution to hybrid capital investors		**0**	(8,000)
Interest received		**643**	668
Income taxes paid		**(2,982)**	(3,492)
Net cash flows from operating activities		**(472,050)**	(237,899)
Disposals (Purchases) of non-current assets		**(11,530)**	(32,503)
Advanced payments for non-current items	9	**(43,074)**	(62,856)
Return of advanced payments on sale and lease back of non-current assets		**12,087**	23,358
Loans issued		**(2,000)**	(8,047)
Proceeds from sale of tangible and intangible assets		**78,321**	278,929
Proceeds received in advance on sale of touristic business		**205,000**	0
Cash flow from investing activities		**238,804**	198,881
Principal payments on interest-bearing liabilities	16	**(261,440)**	(267,174)
Proceeds from issue of interest-bearing liabilities	16	**572,557**	403,350
Transaction costs related to issue of interest-bearing liabilities	16	**(2,016)**	(1,184)
Redemption of interest-bearing liabilities	16	**0**	(195,888)
Cash flow from financing activities		**309,101**	(60,896)

Air Berlin PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

for the period ended 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Change in cash and cash equivalents		75,855	(99,914)
Cash and cash equivalents at beginning of period		165,210	259,180
Foreign exchange gains on cash balances		2,823	5,944
Cash and cash equivalents at end of period	28	243,888	165,210
thereof bank overdrafts used for cash management purposes		115	25
thereof cash and cash equivalents allocated to assets held for sale	5, 28	(23,686)	0
Cash and cash equivalents in the statement of financial position		220,317	165,235

Air Berlin PLC

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Assets			
Non-current assets			
Investments in subsidiaries	34b	**656,982**	1,260,007
Trade and other receivables		**16,977**	10,312
Loans to subsidiaries	34d	**380,519**	122,383
Loans to related parties	34m	**4,047**	2,047
Deferred expenses	34f	**6,080**	8,870
Non-current assets		**1,064,605**	1,403,619
Current assets			
Receivables from subsidiaries	34e	**23,618**	31,459
Positive market value of derivatives		**9,839**	3,637
Trade and other receivables		**4,087**	2,554
Deferred expenses	34f	**3,882**	4,712
Assets held for sale		**1,200**	0
Cash and cash equivalents		**2,003**	270
Current assets		**44,629**	42,632
Total assets		**1,109,234**	1,446,251

Air Berlin PLC

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Equity and liabilities			
Shareholders' equity			
Share capital	34g	29,273	29,273
Share premium	34g	435,085	435,085
Equity component of convertible bonds		597	597
Retained earnings		(1,144,332)	(442,617)
Remeasurement of the net defined benefit obligation		(6,400)	(5,785)
Equity attributable to shareholders of the Company		(685,778)	16,553
Equity attributable to the hybrid capital investors		351,650	325,686
Total equity		(334,128)	342,239
Non-current liabilities			
Interest-bearing liabilities		884,200	600,558
Other liabilities to subsidiaries	34i	2,485	138,085
Deferred tax liabilities	34c	0	2,553
Pension liabilites		1,426	862
Non-current liabilities		888,111	742,058
Current liabilities			
Interest-bearing liabilities		89,981	6,248
Tax liabilities		150	150
Provisions		5,692	3,854
Trade and other payables		34,601	18,072
Payables to subsidiaries	34k	424,319	268,338
Negative market value of derivatives		508	45,292
Advances received		0	20,000
Current liabilities		555,251	361,954
Total equity and liabilities		1,109,234	1,446,251

The financial statements were approved by the Board of Directors and authorised for issue on 28 April 2017 and signed on behalf of the Board:

Thomas Winkelmann
Chief Executive Officer

Air Berlin PLC

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

EURk	Share capital	Share premium	Equity component of con-vertible bonds	Retained earnings	Reasure-ment of the net defined benefit obligation	Equity attribut able to the share-holders of the Company	Equity attribut able to the hybrid capital investors	Total equity
Balances at 31 December 2014	**29,273**	**435,085**	**597**	**(321,101)**	**(3,785)**	**140,069**	**309,356**	**449,425**
Issue of hybrid capital							(8,000)	(8,000)
Total transactions with shareholders and hybrid capital investors	**0**	**0**	**0**	**0**	**0**	**0**	**(8,000)**	**(8,000)**
Loss for the period				(121,516)		(121,516)	24,330	(97,186)
Other comprehensive income					(2,000)	(2,000)		(2,000)
Total comprehensive income				**(121,516)**	**(2,000)**	**(123,516)**	**24,330**	**(99,186)**
Balances at 31 December 2015	**29,273**	**435,085**	**597**	**(442,617)**	**(5,785)**	**16,553**	**325,686**	**342,239**
Distribution to hybrid capital investors								
Total transactions with shareholders and hybrid capital investors	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loss for the period				(701,715)		(701,715)	25,964	(675,751)
Other comprehensive income					(616)	(616)		(616)
Total comprehensive income				**(701,715)**	**(616)**	**(702,331)**	**25,964**	**(676,367)**
Balances at 31 December 2016	**29,273**	**435,085**	**597**	**(1,144,332)**	**(6,401)**	**(685,778)**	**351,650**	**334,128**

Air Berlin PLC

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

EURk	Note	31/12/2016	31/12/2015
Loss for the period		**(675,751)**	(97,186)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Impairment of investments in subsidiaries		**603,000**	0
Decrease in receivables from subsidiaries		**7,840**	32,773
(Increase) Decrease in other assets and prepaid expenses		**(4,329)**	2,881
Deferred tax (benefit) expense	34c	**(2,553)**	2,303
(Decrease) Increase in trade accounts payable and other liabilities		**(1,632)**	37,555
Increase in net defined obligation		**(52)**	(461)
Increase in payables to subsidiaries	34k	**23,998**	112,045
Result on foreign exchange and derivatives, net		**(28,763)**	3,593
Interest expense		**76,761**	67,065
Interest income		**(24,566)**	(9,669)
Cash generated from operations		**(26,047)**	150,899
Interest paid		**(61,492)**	(63,619)
Distribution to hybrid capital investors		**0**	(8,000)
Interest received		**11,108**	19
Income taxes paid		**0**	(952)
Net cash flows from operating activities		**(76,431)**	78,347
Loans issued to subsidiaries	34d	**(296,725)**	0
Loans redeemed by subsidiaries	34d	**41,394**	0
Loans issued to associates		**(2,000)**	(2,047)
Acquisition of associates		**(1,200)**	0
Cash flow from investing activities		**(258,531)**	(2,047)
Redemption of corporate bonds	16	**0**	(195,888)
Proceeds from issue of interest-bearing liabilities	16	**339,116**	118,104
Payment of transaction costs related to issue of interest bearing liabilities	16	**(2,016)**	(1,184)
Cash flow from financing activities		**337,100**	(78,968)
Change in cash and cash equivalents		**2,138**	(2,668)
Cash and cash equivalents at beginning of period		**270**	3,738
Foreign exchange (losses) gains on cash balances		**(405)**	(800)
Cash and cash equivalents at end of period		**2,003**	270
thereof cash and cash equivalents in the statement of financial position		**2,003**	270

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

1. Introduction

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2016 comprise Air Berlin PLC and its subsidiaries (together referred to as "airberlin" or the "group") and the group's interest in at equity investments. Air Berlin PLC is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of airberlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

2. Basic principles and preparation of financial statements

Both the parent Company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union. On publishing the parent Company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 98 to 101.

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

The consolidated financial statements have been prepared in Euro. The European Central Bank year end exchange rate was GBP 0.8562 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share data. The financial statements were authorised and approved for issue by the Board of Directors on 28 April 2017.

GOING CONCERN

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Forecasts and Outlook for the group on pages 48 to 50.

The financial position of the group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 26 to 28. Details for the group's borrowings are set out in note 16 and 30 of the financial statements. In addition, notes 4t and 30 to the financial statements include the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk.

The group meets its day-to-day working capital requirements through its cash resources. As discussed in the Report on Forecasts and Outlook for the group on pages 48 to 50, the current economic conditions create uncertainty particularly given the restructuring exercise the group is still in the progress of completing, the delay in the disposal of the touristic business, scheduled maturity of debt and that new airberlin is still in its infancy. In addition the group faces the same uncertainties as all airlines in respect of fluctuating currency rates, fluctuating jet fuel prices, passenger demand and yield.

The Board of Directors have therefore completed an assessment of going concern as part of the process of finalising these financial statements.

This assessment was based on a cash flow forecast for the 2 years ending 31 December 2018 derived from the group's budget for the year ending 31 December 2017 and the group's business plan for the year ending 31 December 2018. As discussed in the risks section on page 42 a key element of the forecasts is the success of new airberlin as a focussed network carrier with a distinct profile serving more lucrative markets from the hubs in Berlin and Dusseldorf. A further core aspect is the expansion of the long-haul business. Also key is the success of the restructuring programme to reduce the company's operating base to match the new business model. The impact of the wet lease agreement with Lufthansa was also fully factored into the cash flow forecast and the impact of the timing of the sale of Niki including the European and North African touristic business has been considered in sensitivity analysis. Sensitivities were also applied concerning the achievement of the revenue yield assumptions.

The Board also took into consideration a number of borrowings that would need to be refinanced during the timeframe under consideration. A major shareholder has also confirmed via a letter of support that having had sight of the group's forecasts for the two years ending 31 December 2018 their intention to provide the necessary support to air berlin to enable it to meet its financial obligations as they fall due for payment for the foreseeable future and in any event for 18 months from 28 April 2017. Their commitment is evidenced by their historic support through loans and support on obtaining financing for airberlin.

New financing has been provided post year end as described in the post balance sheets events note (see note 33).

The Board have also considered the risk of non-completion of the sale of the touristic business for which the group have already received EUR 300,000 of consideration (EUR 205,000 in December 2016 and a further EUR 95,000 in January 2017). Any transaction will need to comply with EU aviation rules. The transaction also requires competition clearance from the EU Commission, for which the transaction is currently reviewed by the EU Commission. Given, the proposed joint venture with TUIfly, the Board currently see no reason why the transaction will not complete and have therefore not factored into their cash flow forecasts any repayment of the advance consideration received. However, this matter remains a risk to the forecast cash position, not least because of the need for regulatory approval.

In addition there is a EUR 225,000 corporate bond which is due to be repaid in April 2018. The cash flow forecasts have assumed that this bond will be refinanced. The board of directors have considered that in each of the last 5 years that the group has successfully refinanced and raised new loans with and without the support of its major shareholder. The board of directors consider that they will be able to refinance this bond. However, there is no guarantee that this will be the case and any shortfall is expected to be covered through the support of the major shareholder.

The group's sensitised cash flow forecasts show that with the above financing in place the group may still need to rely on the shareholder support described above in order to have sufficient cash to meet its liabilities in the foreseeable future.

The Board have also considered the medium term outlook mindful of the requirement to refinance debt in 2019 of approximately EUR 653,000. The Board have considered that the new airberlin strategy will have at least a year to take effect before this debt is required to be refinanced and that the major shareholder will continue to support the group as described above. The board have therefore concluded that it should be possible to refinance this debt when it falls to be repaid. However, there is no guarantee that this will be the case.

Whilst the group has continued to receive financial support from Etihad and further support has been indicated, it should be noted that a letter of support may not be enforceable by the company should the need arise.

The directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern and that, therefore the company may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual financial statements. The financial statements do not include any adjustments that would result from the going concern basis being inappropriate.

USE OF ESTIMATES

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

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

Judgements made by management in the application of IFRS as adopted by the European Union that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate primarily to: the estimate of residual values of fixed assets, the impairment test for goodwill, the carrying value of investments in the Company and the impairment test for other intangible assets with indefinite lives. Management have also used judgment in the calculation of the provision for onerous contracts in the areas of determining the expected income from the contract and the level of costs which are deemed unavoidable. As the contract is well defined and the term of the lease certain, no sensitivity analysis has been deemed necessary. Judgement is also required in a situation where a group reorganises its cash-generating units (CGUs). In this circumstance goodwill is required to be reallocated on a basis of relative values of the operation and judgment is required when management believe it can demonstrate that some other method better reflects the goodwill associated with the operations disposed of or units reorganised. Management have primarily used the relative number of planes and employees to allocate the goodwill. Further discussion of these estimates and judgements can be found in notes 4b, 4d, 5 and 15. The redundancy provision has met the requirements to be recognised due to the full plan being announced prior to the year end, therefore no significant estimates and judgements were required in this area.

3. Basis of consolidation

A) SUBSIDIARIES

All subsidiaries under control of airberlin are included in the consolidated financial statements. The group controls an entity when the group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

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

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

All of the German subsidiaries identified in note 35 are required to present financial statements under German statutory law except for the Air Berlin PLC & Co. Luftverkehrs KG, as the company is exempt due to Article 264b German Commercial Code.

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

B) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (AT EQUITY INVESTMENTS)

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity. Joint ventures arise where the group has rights to the net assets of the arrangement.

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

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

C) TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

4. Significant accounting policies

A) INTANGIBLE ASSETS

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

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

The estimated useful lives of intangible assets are as follows:

Software, licenses	3 – 5 years
Trademarks	indefinite
Landing rights (slots)	indefinite

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

With the announcement of the group in December 2016 to sell its shares in Niki Luftfahrt GmbH and the European and North African touristic business the trademark NIKI is reclassified as asset held for sale as of 31 December 2016.

B) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at their acquisition or production costs less accumulated depreciation and accumulated impairment losses. Depreciation is based on the group's accounting policies and calculated according to the straight-line method over the estimated useful lives. Judgement is required in estimating the residual values and useful lives of property, plant and equipment. Uncertainty exists in the useful life of aircraft and in the amounts which can be realised through future disposals.

Aircraft

The group owned aircraft of the type Airbus A321. The depreciation period was ten years taking into account estimated residual values. The residual values and useful lives were reviewed at the end of each period.

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

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

Other tangible assets

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

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

C) SUBSEQUENT EXPENDITURE

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

D) IMPAIRMENT

Non-financial assets

The carrying amounts of the group's property, plant and equipment and intangible assets are reviewed at the end of each period to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. For goodwill and intangible assets with indefinite lives, the recoverable amount is estimated at each period end. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recorded in the statement of comprehensive income.

The recoverable amount is the greater of the assets' fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are allocated first to goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata based on their carrying amounts. In respect of tangible assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Judgement is required in determining the cash-generating unit, as well as in calculating value in use. The operating margins used in determining value in use are based on planned business and operational growth. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit. Key assumptions are the seat load factor, yield, fuel price and USD exchange rate.

Financial assets

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

E) INVENTORIES

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

F) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method less impairment loss, which approximates their fair value. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Receivables for which collection is doubtful are written down to their realisable value in a separate account. Further details to the allowance for impairment losses are found in note 30b. The allowance for impairment losses is used to record impairment losses until the group determines that the receivable is irrecoverable. Financial assets are derecognised directly when they are expected to be irrecoverable.

Estimated future cash flows are based on estimates and judgements regarding the creditworthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses.

G) DERIVATIVES

Derivative financial instruments are used for hedging fuel price interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to eliminate uncertainty over future cash flows. Derivative financial instruments are recognised initially at fair value. All derivatives that do not qualify for hedge accounting are classified as held for trading. Hedge accounting is discontinued prospectively if the hedging instrument expires, is sold, is terminated or exercised, if the group revokes the designation as hedge accounting or if the hedge no longer meets the criteria for hedge accounting. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the statement of comprehensive income as profit or loss unless the derivative has been classified as a hedge of a highly probable future cash flow. The effective portion of gains and losses from changes in the fair value of derivatives designated as cash flow hedges are taken to equity in accordance with IAS 39 and are recognised in profit or loss when the related transaction impacts income or the future cash flow ceases to be considered highly probable. The ineffective portion of a cash flow hedge is recognised immediately in profit or loss.

Forward exchange transactions are used to mitigate exchange rate exposure. Commodity swaps and options are used to limit the fuel price risk. Interest collars and swaps are used to mitigate interest rate change risks. For further information see note 29.

H) CASH AND CASH EQUIVALENTS

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

I) SHARE CAPITAL

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

Ordinary shares

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

Redeemable “class a” preference shares

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

Treasury shares

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

Hybrid Capital

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

J) INCOME TAXES

Income tax on the profit or loss for the year and on items taken to equity comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the period, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with IAS 12 on the basis of temporary differences between the tax base at the level of the individual company and the respective IFRS book value. No deferred tax is recognised on the initial recognition of goodwill arising from acquisitions. A deferred tax asset is recognised for tax losses carried forward and other temporary differences resulting in an expected tax benefit in future periods to the extent that it is probable that taxable income will be available against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the period. Judgement is required in estimating the probability of utilisation of deferred tax assets; uncertainty exists in the amount and timing of future taxable income.

K) PROVISIONS

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

L) INTEREST-BEARING LIABILITIES

Interest-bearing liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method. The fair value option is not applied.

M) TRADE AND OTHER PAYABLES

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

N) FOREIGN CURRENCY

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

Exchange rate differences arising from interest-bearing liabilities and other financing activities – as well as unrealised gains and losses due to the fair value measurement of derivative financial instruments and other unrealised foreign exchange rate gains and losses – are classified as part of financing costs. All other exchange rate differences are allocated to the various income and expense line items from which they arose within operating results.

O) RECOGNITION OF INCOME AND EXPENSES

Revenue relates primarily to transportation services provided and duty-free sales. Flight revenue is recognised at the point where the flight is flown whilst a return portion of the ticket is deferred until the return flight is flown. Revenue on unclaimed tickets is recognised when the ticket expires. Other revenue and operating income is recognised when the corresponding service has been provided or when the risks and rewards associated with the right of ownership are transferred to the buyer (for example in-flight sales). Revenue is measured at the fair value of the consideration received taking into account the amount of any sales deductions (for example air passenger duty, VAT and discounts). Rebates and discounts offered are deducted from revenue and are recognised at the point when the flight to which the rebate or discount relates is flown.

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

The liability to provide awards to the passengers under the frequent flyer plan (topbonus) rests with topbonus Ltd in return for a payment from the Group.

P) DEFERRED INCOME AND EXPENSES

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

When the fare is for a round-trip and the return flight has not been taken at year end, the unearned revenue is deferred in the consolidated statement of financial position under "deferred income" until such time the transportation is provided.

Q) LEASING

The group leases a number of aircraft under operating leases which require airberlin to maintain the leased assets. The repair and overhaul costs are not included in the lease rentals, a maintenance accrual is built up based on cycles. For the majority of its leased aircraft, the group makes payments for the future maintenance expenses to the lessor and recognises them in profit or loss. These are based on the estimated costs of major airframe and certain engine checks and are calculated based on the number of flight hours or cycles flown. When maintenance takes place the group is reimbursed for the payments already made.

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

The group capitalises fixed assets leased under arrangements in which substantially all the risks and rewards of ownership are transferred to the group as finance leases in accordance with IAS 17. Leased assets are measured initially at the lower of their fair value or the present value of the minimum lease payments. The assets are depreciated on a straight-line basis over the lease term. The related obligation is shown under interest-bearing liabilities in the amount of the discounted minimum lease payments less payments made.

Lease income from operating leases is recognised in the statement of comprehensive income over the lease term.

The group carries out sale and leaseback transactions. If the leaseback transaction is an operating lease, and the sale price is below fair value of the asset, any profit or loss is recognised immediately in the statement of comprehensive income in accordance with IAS 17. Except if the loss is compensated for by future lease payments below market price, it is deferred and amortized in proportion to the lease payments over the lease term (see note 4p).

R) PENSIONS

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

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

Actuarial gains and losses are recognised in other comprehensive income in the period in which they are incurred.

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

S) NEW PRONOUNCEMENTS – NOT YET ADOPTED

Some new standards, alignments of standards and interpretations were issued and endorsed by the EU for the financial years beginning on or after 1 January 2017 but have not been applied by the group in preparing the financial statements. The group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9 and IFRS 15.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach.

The Group is currently performing an assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group is performing a preliminary assessment of the potential impact of adoption of IFRS 9.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting remains similar to the current standard.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The Group has started an initial assessment of the potential impact on its consolidated financial statements.

T) FINANCIAL RISK MANAGEMENT

The group has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk

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

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

Risk reporting includes the review and assessment of all risks in the individual departments. This includes the registration of new risks and the reassessment of existing risks regarding their probability of occurrence and potential effect on earnings. Where possible a quantitative assessment of risks is undertaken. The registered risks are continuously updated using respective IT tools.

Extensive risk reporting, which contains information on current risks and assessments, changes in assessments and the appropriate measures is submitted each quarter to the Management Board.

There were no changes in the group's exposures to risk or its objectives, policies and processes for identifying, measuring and managing risks since the previous period.

Credit risk

Single-seat tickets are sold subject to payment up front. Credit risk is very low and limited to payments made from overdrawn bank accounts shortly before the flight. Credit risk relating to bulk ticket sales to charter and package tour operators is also limited, as tour operators make regular pre-payments during the month based on the expected monthly sales.

The sale of passage and freight documents is handled via agencies and the internet within the guidelines of the International Air Transport Association (IATA). Agencies are connected with country-specific clearing systems for the settlement of passage or freight sales. Individual agents are subject to controls by appropriate clearing houses. The credit risk from an individual sales agent is relatively low due to worldwide dispersion. Where the agreement upon which a payment is based does not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a bilateral basis or via a clearing house of IATA. Settlement takes place principally through the balancing of all receivables and liabilities in mainly weekly and bi-weekly intervals, which also contributes to a significant reduction in the risk of non-payment. Separate security may be required in the particular payment agreement for other transactions.

For all other payment relationships, depending upon the type and level of the particular payment, securities may be required or credit information/references obtained. Historical data from the business relationship up until that point, in particular in relation to payment behaviour, may be used in an effort to avoid non-payment. Recognisable risks are accounted for by valuation adjustments on receivables.

The credit risk from investments and derivative financial instruments arises from the risk of non-payment by a contract partner. Since the transactions are concluded with contracting parties of the highest possible credit rating or that are known to be reliable based on past experience the risk of non-payment is extremely low. Cash at bank is held only at banks with the highest credit ratings. The group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. Liquidity in the group is protected by appropriate liquidity planning and adequate financing structures.

The group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the airberlin reputation.

A group-wide treasury management system is implemented. It covers and evaluates all matters associated with interest and exchange rates. All substantial airberlin companies are fully incorporated into the airberlin treasury management system. In addition the group has enhanced its liquidity management through the development of a liquidity management tool which incorporates expected operational, financing and investing cash flows on a weekly basis. The primary focus is on sufficient liquidity, based on comprehensive financial and liquidity planning.

Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and commodity prices. Changes in market prices can affect the group’s income and expenses or the value of airberlin holdings in financial instruments.

As an airline airberlin is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. airberlin uses derivatives to limit these risks. A detailed description of the group's exposure to market risks and the hedging activities to limit these risks is presented in note 29.

Capital management

The group considers bonds, equity (excluding hedge accounting reserves and foreign currency reserves), hybrid capital, traditional bank financing and finance leases to be capital. As the group is mainly funded by bonds and bank loans, the board monitors the capability of the group to service this debt which it does by continually updating its liquidity planning and monitoring performance against budgets and forecasts. The board seeks to maintain a balance between securing sufficient liquidity and the interest burden arising from additional debt. In particular, in reviewing the Company's financing alternatives, the Board balances a variety of financing options, including share issues, bond issues and traditional bank financing.

The group is not subject to any externally imposed capital requirements.

U) FINANCIAL INSTRUMENTS

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

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

- Loans and receivables
- Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- Financial assets and liabilities at fair value classified as hedging instruments in accordance with IAS 39 (derivative financial instruments)
- Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The categories of financial assets and financial liabilities are further detailed in note 30g.

airberlin has defined the following classes of financial assets and financial liabilities:

- Loans and receivables
- Derivative financial instruments classified as held for trading
- Derivative financial instruments classified as hedge accounting
- Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)

5. Intangible assets

EURk	Software, licenses	Goodwill	Landing rights	Trademarks	**Total**
Acquisition cost					
Balance 1 January 2015	87,927	196,852	176,249	8,500	**469,528**
Additions	8,712	0	0	0	**8,712**
Currency translation adjustments	0	293	0	0	**293**
Disposals	(120)	0	0	0	**(120)**
Balance 31 December 2015	96,519	197,145	176,249	8,500	**478,413**
Additions	5,204	0	0	0	**5,204**
Currency translation adjustments	0	53	0	0	**53**
Disposals	0	0	(88,607)	0	**(88,607)**
Disposal in cause of business restructuring	0	(42,722)	0	0	**(42,722)**
Reclassification held for sale	0	(41,817)	(7,360)	(8.500)	**(57.677)**
Balance 31 December 2016	101,723	112,659	80,282	0	**294,664**
Amortisation					
Balance 1 January 2015	60,730	0	0	0	**60,730**
Amortisation charge for the year	12,772	0	0	0	**12,772**
Disposals	(120)	0	0	0	**(120)**
Balance 31 December 2015	73,382	0	0	0	**73,382**
Amortisation charge for the year	12,297	0	0	0	**12,297**
Balance 31 December 2016	85,679	0	0	0	**85,679**
Carrying Amount					
At 1 January 2015	27,197	196,852	176,249	8,500	**408,798**
At 31 December 2015	23,137	197,145	176,249	8,500	**405,031**
At 31 December 2016	16,044	112,659	80,282	0	**208,985**

The group has determined three cash-generating units for purposes of impairment test and allocated goodwill to these cash generating units as follows:

EURk	Freight	Leasing	Flight Services	**Total**
Goodwill at 1 January 2016	31,000	0	166,145	**197,145**
Reallocation of goodwill	0	42,722	(42,722)	**0**
Reallocation of goodwill to asset held for sale	0	0	(41,817)	**(41,817)**
Impairment of goodwill	0	(42,722)	0	**(42,722)**
Currency translation adjustment	0	0	53	**53**
Goodwill at 31 December 2016	31,000	0	81,659	**112,659**
Landing rights at 31 December 2016 (see table above)	0	0	80,282	**80,282**
	31,000	0	161,941	**192,941**

Due to the restructuring of the group – including the wet lease out of 38 aircraft in December 2016, the carve-out of the touristic business and changes in the network of airberlin – there are significant changes in the business model. Following the reorganization reflecting the new business model the operations covering the wet lease arrangement were identified to be a separate CGU, which resulted in the group having three CGUs: Freight, Flight Services and Leasing. Management have assessed how much of the goodwill required allocation to the touristic business which has been classified as held for sale and has further determined the element of goodwill relating to the Leasing CGU. Management have allocated the goodwill to the three CGUs based on the relative size of the operations rather than relative fair values. In doing so they have considered factors such as number of aircraft, crew size and landing slots and applied judgement in determining the relative weighting attached to each. Management believe that an allocation based on the relative size of the operations is more appropriate because the fair value of the leasing CGU and the impact of the restructuring has a negative fair value compared to the positive fair values of the flight CGU and touristic business.

Following the reorganization of the group's CGUs, EUR 112,659 of goodwill remains in the flight operations CGU and was then subject to the impairment test described below. EUR 41,817 has been allocated to the disposal group and therefore transferred to asset held for sale. EUR 42,722 has been allocated to the leasing CGU but has then been impaired as management have considered that this goodwill has no value given the onerous nature of the wet lease contract.

In addition to the above an exercise has been performed on the landing rights previously recognised on the balance sheet. On the basis of the future flight plans, the landing rights were classified into three categories: landing rights that will belong to the "new airberlin", landing rights that will be carved out as part of the touristic business and landing rights that are abandoned. As a result of this assessment landing rights to the amount of EUR 80,282 were allocated to the "new airberlin" while landing rights of EUR 7,360 were reclassified to assets held for sale as part of the carve out of the touristic business and landing rights of EUR 88,607 are to be abandoned.

The group performed an impairment test on landing rights and goodwill allocated to the flight operations CGU (excluding the amounts allocated to asset held for sale and the leasing CGU) in the fourth quarter of 2016 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no additional impairment to the described above was required. The recoverable amount was determined for the cash-generating unit to which the landing rights and the goodwill belong.

Flight Services is the most significant CGU with significant intangible assets allocated to it. For Flight Services, the future cash flows were estimated using the value-in use method based on the most recent five year cash flow plan (including the benefits and expenses committed to in the recent restructuring plan) approved by management, sensitised for the purposes of the Impairment test and extrapolated to perpetuity using a 0.5% growth rate and discounted to their present value (2015: 0.5%). The pre-tax peer-group discount rate and the rate used by airberlin was 6.79% (2015: 6.53%). The discount rate reflects management's estimate of the risks associated for the cash-generating unit. The underlying management cash flow forecast is most sensitive to the assumptions of seat load factor, yield, fuel price and USD exchange rate. The result was sense checked to the market capitalisation of the group plus fair value of net debt.

The management is therefore satisfied that the recoverable amount of the Flight Services CGU is greater than the carrying value of the related assets.

For the Freight CGU, the future cash flows were estimated using the value-in use method based on the most recent five year cash flow plan approved by management, sensitised for the purposes of the Impairment test and extrapolated to perpetuity using a 0.5% growth rate and discounted to their present value (2015: 0.5%). The same WACC as described above was used. The underlying management cash flow is most sensitive to revenue growth and sensitivities were performed to restrict the revenue growth.

The management is therefore satisfied that the recoverable amount of the Freight CGU is greater than the carrying value of the related assets.

ASSETS AND LIABILITIES HELD FOR SALE

The Assets held for sale position primarily includes intangible assets of EUR 57,677 comprising goodwill of EUR 41,817, landing rights of EUR 7,360 and trademark of EUR 8,500 related to the carve out of touristic operation as well as trade receivables of EUR 79,603, security deposits of EUR 4,446, bank balances of EUR 12,038 and fixed-term deposits of EUR 11,648 (other assets see also note 6 and 7). The liabilities held for sale include advanced payments received for touristic flights sold that will be ultimately flown post the closing of the transaction in the amount of EUR 107,735.

The group has contracted to sell its touristic business. On 5 December 2016, Etihad Investment Holding Company LLC and the group entered into a forward sale agreement for the group to sell to Etihad Investment Holding Company for a consideration of EUR 30,000 certain identified landing slots and for a consideration of EUR 270,000 the shares in Gehuba Beteiligungsverwaltungs GmbH, the parent undertaking of NIKI Luftfahrt GmbH. At the date of sale all intercompany balances will be settled. As part of the sale the group will also contribute as part of a separate Contribution Agreement selected transportation agreements relating to certain touristic destinations in Southern Europe, North Africa and Turkey connected with the touristic business, prepayments connected with the selected transport agreements. 21 aircrafts will be subleased or the existing lease agreements novated. Other items such as relevant IT licenses and maintenance equipment will also be transferred. The Contribution Agreement has not yet been agreed.

The group is committed to selling and Etihad Investment Holding Company LLC is committed to purchasing the touristic business and though the transaction is still subject to regulatory approval it expects the deal to complete within 12 months.

As at 31 December 2016, the group has received EUR 205,000 of the sales consideration which has been classified within advance payments received (see note 19). The sales price of EUR 300,000 exceeds the fair value of the goodwill, the landing rights and the trademark NIKI.

Management expect that the Contribution Agreement will primarily result in the transfer of cash in respect of the advance revenues collected by the group in respect of flights sold that will be ultimately flown post the closing of the transaction. These cash flows are expected to be transferred in the respective flight month. In addition the group will be able to reduce the aircraft deposits paid to the leasing company or reduce its restricted cash position.

6. Property, plant and equipment

EURk	Land and buildings	Aircraft and engines	Technical equipment and machinery	Office equipment	**Total**
Acquisition cost					
Balance at 1 January 2015	14,860	224,357	176,339	17,134	**432,690**
Additions	470	4,674	31,290	2,668	**39,102**
Disposals	(14)	(124,967)	(15,995)	(2,078)	**(143,054)**
Reclassification as held for sale	0	(36,131)	0	0	**(36,131)**
Balance at 31 December 2015	15,316	67,933	191,634	17,724	**292,607**
Additions	627	0	25,194	1,838	**27,659**
Disposals	(61)	(63,460)	(16,384)	(1,213)	**(81,118)**
Reclassification	0	(4,473)	4,473	0	**0**
Reclassification as held for sale	0	0	(3,970)	0	**(3,970)**
Balance at 31 December 2016	15,882	0	200,947	18,349	**235,178**
Depreciation					
Balance at 1 January 2015	11,817	45,034	62,880	10,783	**130,514**
Depreciation charge for the year	821	7,979	18,603	3,337	**30,740**
Disposals	(14)	(30,476)	(8,895)	(1,978)	**(41,363)**
Impairment loss	0	2,472	0	0	**2,472**
Reclassification as held for sale	0	(12,712)	0	0	**(12,712)**
Balance at 31 December 2015	12,624	12,297	72,588	12,142	**109,651**
Depreciation charge for the year	886	572	22,115	2,100	**25,673**
Disposals	(61)	(12,869)	(10,350)	(1,182)	**(24,462)**
Impairment loss	0	0	5,212	0	**5,212**
Balance at 31 December 2016	13,449	0	89,565	13,060	**116,074**
Carrying amount					
At 1 January 2015	3,043	179,323	113,459	6,351	**302,176**
At 31 December 2015	2,692	55,636	119,046	5,582	**182,956**
At 31 December 2016	2,433	0	111,382	5,289	**119,104**

Impairment losses of EUR 5,212 were recognised for rotable parts upon the classification as assets held for sale in accordance with IFRS 5. There are no capital commitments for property, plant and equipment (2015: 0.2 bn USD).

As at 31 December 2015 the group showed two own aircraft within aircraft and engines, which have been disposed during the reporting period.

Tangible assets include technical equipment and machinery which have been capitalised as a result of finance leases. The book value of tangible assets capitalised as a result of finance leases is as follows:

EURk	2016	2015
Technical equipment and machinery	**27,001**	30,845

ASSETS HELD FOR SALE

Assets held for sale position includes rotable parts which are going to be sold. The rotables were written down to their fair value less costs to sell of EUR 3,970 based upon the sale contract.

7. At equity investments

EURk	2016	2015
Acquisition cost		
Balance at 1 January	**2,848**	6,762
Reversal of Impairment	**60**	(3,913)
Reclassification from other assets to at equity investments	**(634)**	(700)
Share of profit	**1,032**	699
Reclassification held for sale	**(1,200)**	0
Balance at 31 December	**2,106**	2,848

The line in the statement of financial position „At equity investments" covers all associates and joint ventures measured at equity (see note 35).

In the year ended 31 December 2015 an impairment loss of EUR 3,913 was recognised for the shareholding in IHY IZMIR HAVAYOLLARI A.S. pending the sale of the shares.

8. Inventories

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

EURk	2016	2015
Supplies and spares	**54,288**	64,248
Purchased merchandise	**349**	406
	54,637	64,654

Inventories are measured at the lower of cost and net realisable value. In 2016 the impairment of inventories was EUR 11,083 (2015: EUR 11,544). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 22 (fuel for aircraft and catering cost).

9. Trade and other receivables

	2016			2015		
EURk	Current	Non-current	**Total**	Current	Non-current	Total
Trade receivables	198,877	0	**198,877**	170,398	0	170,398
Receivables from related parties	9,060	0	**9,060**	8,124	0	8,124
Loans receivable	0	6,000	**6,000**	0	6,000	6,000
Loans receivable from related parties	0	7,260	**7,260**	0	5,119	5,119
Security deposits and deposits with suppliers	40,186	45,543	**85,729**	34,765	37,896	72,661
Security deposits and deposits with suppliers from related parties	0	13,745	**13,745**	0	7,182	7,182
Receivables for bonus and claims	39,322	0	**39,322**	17,298	0	17,298
Other receivables	31,263	76	**31,339**	20,472	76	20,548
Loans and receivables	**318,708**	**72,624**	**391,332**	251,057	56,273	307,330
Receivables from tax authorities	8,769	0	**8,769**	10,135	0	10,135
Advanced payments	92,103	0	**92,103**	108,610	0	108,610
Other assets	24,499	0	**24,499**	18,092	0	18,092
	444,079	**72,624**	**516,703**	387,894	56,273	444,167
Trade receivables allocated to assets held for sale	(79,603)	0	**(79,603)**	0	0	0
Security deposits allocated to assets held for sale	(4,446)	0	**(4,446)**	0	0	0
Trade and other receivables as shown in the consolidated statement of financial position	360,030	72,624	**432,654**	387,894	56,273	444,167

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

Other assets include suppliers with debit balances of EUR 19,162 (2015: EUR 13,016).

Bonuses relate to receivables from incentive agreements with airports and claims result from refunds for maintenance events from lessors.

Advanced payments relate primarily to advanced payments associated with the software implementation contract which is not yet completed of EUR 86,283 (2015: EUR 90,057). These include capitalized interest of EUR 7,069 (2015: EUR 4,316) calculated using interest rate of 9.45% (2015: 8.95%). The software implementation started in 2013 and is expected to complete in 2017.

Payments (including capitalized interest) of EUR 43,074 (2015: EUR 62,856) were made during the period, EUR 20,969 was capitalised (2015: EUR 14,728), EUR 26,525 has been netted with deferred income and EUR 12,087 result from sale and leaseback. The group’s exposure to credit and currency risks and impairment losses related to trade receivables and other financial assets are disclosed in note 30.

10. Deferred expenses

	2016			2015		
EURk	Current	Non-current	**Total**	Current	Non-current	Total
Lease rate prepayments	25,364	6,080	**31,444**	23,382	9,010	32,392
Deferred losses from sale-and-leaseback transactions and smoothing of leasing rates	3,134	47,640	**50,774**	6,563	38,789	45,352
Other deferred expenses	38,344	1,623	**39,967**	20,911	4,969	25,880
	66,842	55,343	**122,185**	50,856	52,768	103,624

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

11. Share capital and reserves

SHARE CAPITAL AND SHARE PREMIUM

Share capital of 116,800,508 ordinary shares of EUR 0.25 each and 50,000 A shares of GBP 1.00 each is issued and fully paid up. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust) in connection with an expired employee share plan. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

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

OTHER CAPITAL RESERVES

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

TREASURY SHARES

In connection with an expired share-based payment scheme, the Company repurchased the beneficial interest (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock. The purchase price was EUR 0.25 per share (par value).

HEDGE ACCOUNTING RESERVE

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

FOREIGN CURRENCY TRANSLATION RESERVE

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

DIVIDENDS

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

12. Hybrid capital

On 27 April 2014 the group issued a perpetual bond to its shareholder Etihad Airways PJSC in the total amount of EUR 300,000. The drawdown of the bond was divided in three tranches of EUR 100,000 and paid on 20 May 2014, 28 August 2014 and 23 October 2014. The perpetual bond has no maturity, is repayable only at the discretion of the group and bears an interest coupon of 8.0% per annum. Interest coupons can be deferred indefinitely at the discretion of the group. Settlement of all arrears of interest is payable only in the event that group declares or pays a dividend or repurchases its own ordinary shares. The perpetual bond bears a conversion right to convert the bonds to ordinary shares at conversion price of EUR 1.79 per ordinary share. Conversion to ordinary shares is at the discretion of the bond holder and can be exercised from the date of issue but is subject to the limitations imposed by the Articles of Association that the group must at all times be controlled or majority owned by nationals of the European Community or European Economic Area. As there is no obligation on the group to repay the capital and payments of interest can be deferred until a dividend is declared (which is at the discretion of the group), the perpetual bond is recognized as equity in the group's consolidated statement of financial position. An amount of EUR 59,650 is classified within equity to hybrid capital to reflect the amount of interest payable in such an event, thereof EUR 25,964 relating to 2016 (2015: EUR 24,330). In 2015 EUR 8,000 was distributed to the hybrid capital investors.

13. Earnings per share

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

In EURk and thousands of shares, except EPS	2016	2015
Result for the period	**(781,895)**	(446,636)
Result attributable to hybrid capital investors	**25,964**	24,330
Result attributable to ordinary shareholders (basic and diluted)	**(807,859)**	(470,966)
Issued ordinary shares at 1 January	**116,801**	116,801
Effect of treasury shares held	**(178)**	(178)
Weighted average number of ordinary shares outstanding (basic)	**116,623**	116,623
Weighted average number of ordinary shares outstanding (diluted)	**116,623**	116,623
Basic earnings per share (in EUR)	**(6.93)**	(4.04)
Diluted earnings per share (in EUR)	**(6.93)**	(4.04)

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

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

14. Pension liabilities/employee benefits

The group held provisions for the following employee benefits at 31 December 2016:

EURk	2016	2015
Provision for anniversary bonuses	**426**	701
Provision for old age part time programme	**584**	196
Pension liabilities	**6,418**	5,306
Total employee benefits	**7,428**	6,203

The provisions for anniversary bonuses and old age part time programme are described in note 15.

DEFINED BENEFIT PLANS

In 2007, the Company entered into a defined benefit pension plan for its Executive Directors. In addition the group has a defined benefit pension plan for certain employees of AB Finance II GmbH (formerly: dba). Both pension plans are funded through payments to qualified insurance contracts.

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

EURk	2016	2015
Present value of funded obligations	**26,871**	26,654
Fair value of plan assets	**(20,716)**	(21,524)
Total funded status deficit	**6,155**	5,130
Pension liabilities	**6,418**	5,306
Net defined benefit asset	**(263)**	(176)

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

EURk	2016	2015
Defined benefit obligation at 1 January	**26,654**	23,820
Current service cost	**162**	980
Benefits paid	**(1,848)**	(317)
Interest on obligation	**571**	477
Actuarial losses	**1,332**	1,694
Defined benefit obligation at 31 December	**26,871**	26,654

Sensitivities of the defined benefit obligation are as follows:

EURk	2016
Defined benefit obligation at 31 December 2016	**26,871**
Defined benefit obligation at 0.5 percentage points lower interest rate	**29,932**
Defined benefit obligation at 0.5 percentage points higher interest rate	**24,223**

The effect of inflation on the defined benefit obligation is seen to be immaterial.

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

EURk	2016	2015
Fair value of plan assets at 1 January	**21,526**	19,679
Contributions paid	**409**	1,545
Benefits paid	**(1,848)**	(317)
Interest income on plan assets	**461**	398
Actual gain on plan assets	**168**	219
Fair value of plan assets at 31 December	**20,716**	21,524

Plan assets consist exclusively of external contracts with insurance companies in Germany (these insurance policies are not qualifying policies under the definition of IAS19). These insurances could potentially include shares in Air Berlin PLC. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of airberlin shares held would be minimal.

The amount recognised as pension expense in profit and loss and the other comprehensive income is as follows:

EURk	2016	2015
Current service cost	**162**	980
Net interest on defined benefit pension plan	**110**	79
Pension expense recognized in profit and loss	**272**	1,059
Actuarial loss	**1,332**	1,694
Actual gain on plan assets	**(168)**	(219)
Net loss recognised in other comprehensive income	**1,164**	1,475

The group expects to contribute EUR 332 to its defined benefit pension plans in 2016.

Principal actuarial assumptions at the reporting date are as follows:

Percent	2016	2015
Discount rate at 31 December	**1.85 – 2.02**	2.08 – 2.25
Future salary increases	**0.00 – 2.00**	0.00 – 2.00
Cost of living adjustment (future pension increases)	**1.00**	1.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

DEFINED CONTRIBUTION PLANS

Through the acquisition of AB Finance II GmbH (formerly: dba) in 2006, the group acquired a defined contribution pension plan covering all employees of AB Finance II GmbH (formerly: dba), to which the group makes contributions. Furthermore Air Berlin PLC & Co. Luftverkehrs KG contracted a defined contribution plan with its pilots and cabin crew. The net pension expense recorded in profit and loss in 2016 as a result of the defined contribution plans is EUR 7,688 (2015: EUR 8,268). There is no contribution outstanding as at year end.

As employees in Germany are covered by and required to contribute to the German social security system, airberlin does not have any other employee benefit plans at the end of the period. The group paid contributions into the German social security system of EUR 27,909 in 2016 (2015: EUR 29,296).

15. Provisions

EURk	Balance at 1/1/2016	Additions	Utilisation	Released	**Balance at 31/12/2016**
Provision for onerous contracts	11,649	65,723	(6,737)	0	**70,635**
Provision for anniversary bonuses	701	0	(218)	(57)	**426**
Provision for old age part time programme	196	2,063	(1,675)	0	**584**
Provision for redundancy costs	35,777	96,066	(29,307)	(1,306)	**101,230**
Provision for pensions	5,306	1,674	(562)	0	**6,418**
	53,629	165,526	(38,499)	(1,363)	**179,293**

The maturity classification is as follows:

	2016			2015		
EURk	Current	Non-current	**Total**	Current	Non-current	Total
Provision for onerous contracts	19,158	51,477	**70,635**	11,649	0	11,649
Provision for redundancy costs	70,708	30,522	**101,230**	35,777	0	35,777
Provision for pensions, anniversary bonuses and old age part time programme	0	7,428	**7,428**	0	6,203	6,203
	89,866	89,427	**179,293**	47,426	6,203	53,629

The group set up a provision for several onerous contracts to the extent that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits. The provision includes EUR 51,116 obligations from a wet lease agreement with the Deutsche Lufthansa group in connection with the restructuring of the airberlin group under which 38 aircraft are leased over an initial term of six years. Furthermore the provision includes EUR 8,600 and EUR 6,116 relating to the onerous lease contract on aircraft, hangars and office buildings respectively.

Older employees (age 55 and above) have the opportunity to take part in an old age part time programme. The programme is a form of early retirement in which the employee works full time during the first few years and not at all in the following years until reaching the official age of retirement. Fifty-nine (2015: 60) employees have signed such agreements as of the end of the period. A discount rate of 0.75% (2015: 0.75%) and an expected salary increase of 2.0% (2015: 2.0%) were used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect. The provision of EUR 4,611 was compensated by security funds of EUR 4,027 (2015: EUR 2,914).

The provision for anniversary bonuses was calculated using a discount rate of 0.00% (2015: 0.35%) and an expected yearly salary increase of 2.0% (2015: 2.0%). Uncertainties exist in the probability that the employees will remain with the group until they are entitled to receive their anniversary bonus and as to their salaries at that time. In 2013 the group renegotiated the anniversary bonus agreements. They agreed to limit the agreement to the next five years and to terminate the agreement afterwards. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs includes EUR 90,233 which relate to the restructuring of the group in 2016 and EUR 7,782 which relate to the in 2015 announced extension of the restructuring program of the group. The remaining amount of the provision relates to other terminations of employment.

16. Interest-bearing liabilities and interest-bearing liabilities due to aircraft financing

This note provides information about the terms and conditions of the group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the group's exposure to interest rate, foreign currency and liquidity risk is provided in note 30.

INTEREST-BEARING LIABILITIES

The group has entered into various interest-bearing liabilities. The carrying amounts for the years 2016 and 2015 are as follows:

EURk	Secured/ unsecured	Currency	Maturity	**Carrying amount 31/12/2016**	Carrying amount 31/12/2015
Corporate bonds II	Unsecured	EUR	2018	**227,123**	225,990
Corporate bonds IV	Unsecured	EUR	2019	**169,450**	168,504
Corporate bonds V	Unsecured	CHF	2019	**92,479**	91,066
Convertible bonds I	Unsecured	EUR	2017*	**4,852**	4,852
Convertible bonds III	Unsecured	EUR	2017*	**143,163**	132,616
Finance lease liabilities	Secured	EUR	2017 – 2024	**39,231**	41,183
Loans from related parties I	Unsecured	USD	2020	**119,941**	120,061
Loans from related parties II	Unsecured	USD	2021	**242,074**	206,761
Loans from related parties III	Unsecured	USD	2021	**93,481**	0
Loans from banks I	Secured	EUR	2017	**75,000**	0
Loans from banks II	Secured	AED	2018	**188,902**	0
Bank overdrafts	Unsecured	EUR		**115**	25
				1,395,811	991,058

* first option to redeem the bonds

Of this amount EUR 234,795 (2015: EUR 10,181) is classified within current liabilities in the statement of financial position.

The bank overdrafts are due in the following year respectively. The finance lease liabilities and Loans from related parties are detailed in note 17 and 31 respectively.

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

EURk	2016	2015
Less than one year	**234,795**	10,181
Between one and five years	**1,145,202**	753,259
More than five years	**15,814**	227,618
	1,395,811	991,058

Corporate bonds II

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

On 21 January 2014 the group increased the aggregate principal amount of that bond by EUR 75,000 to aggregate principal amount of EUR 225,000. The notes were issued at 101.50% of their principal amount. Transaction costs incurred were EUR 2,333. The bonds are measured at amortized cost.

Corporate bonds IV & V

On 8 May 2014 the group issued two corporate bonds amounting to EUR 170,000 and respectively CHF 100,000 due for repayment in 2019. The bond issue is made up of 170,000 bonds with a principal amount of EUR 1 each, earning yearly interest of 6.75% and respectively 100,000 bonds with a principal amount of CHF 1 each, earning yearly interest of 5.625%. Thereof EUR 162,706 and CHF 92,725 was a cash inflow, whereas EUR 7,294 and CHF 7,275 will be a conversion of the corporate bonds with a maturity 2014 and 2015 into the new issued corporate bond. Transactions costs incurred were EUR 8,203. The bonds are measured at amortized cost.

Convertible bonds I

On 11 April 2007 the group issued EUR 220,000 of convertible bonds due in 2027. The bond issue was made up of 2,200 bonds with a principal amount of EUR 100 each, earning yearly interest of 1.5%. The initial conversion price is EUR 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to EUR 220,000. Transaction costs incurred were EUR 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item in equity.

In 2011 the group redeemed 1,252 convertible bonds with a principal amount of EUR 125,200 in total.

In the second quarter of 2012 the bondholders of 60 convertible bonds with a principal amount of EUR 6,000 have exercised the option to require the company to repurchase the bonds. The payments related to the repurchase amounts to EUR 6,162. The equity component of the redeemed convertible bonds less transaction costs net of tax was transferred to the retained earnings within equity. As at 31 December 2016, 48 convertible bonds with a principal amount of EUR 4,800 are still in the market (2015: EUR 4,800).

The equity component in the statement of financial position totalled EUR 597 (2015: EUR 597).

The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017 and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time, so long as the trading price of the airberlin share exceeds 150% of the conversion price.

More information about changes in the convertible bonds in 2017 is provided in Note 33.

Convertible bonds III

On 6 March 2013 the group issued EUR 140,000 convertible bond due in 2019. The bond issue was made up of 1,400 bonds with a principal amount of EUR 100 each, earning yearly interest of 6.0%. The initial conversion price was EUR 2.82 which resulted in an initial conversion ratio of 35,460 ordinary shares per bond. With effect from 7 March 2016 the conversion price of the bonds has been adjusted from EUR 2.82 to EUR 2.11 which results in a new conversion ratio of 47,393 ordinary shares per bond. Proceeds from the bond issue amounted to EUR 140,000. Transactions costs incurred were EUR 3,263.

The convertible bond was recognised as debt in full in accordance with IAS 32. The debt component of the convertible bond is split into an embedded derivative and a host contract. Both are included under interest bearing liabilities in the statement of financial position as follows:

EURk	**31/12/2016**
Carrying amount on 1 January 2016	**132,616**
Accrued interest	1,782
Fair valuation on the embedded derivative	8,765
Carrying amount on 31 December 2016	**143,163**
thereof the host contract	134,398
thereof the embedded derivative	8,765

More information about changes in the convertible bonds in 2017 is provided in Note 33.

INTEREST-BEARING LIABILITIES DUE TO AIRCRAFT FINANCING

The group entered into various financing agreements with commercial banks to finance aircraft. The loans were secured over aircraft. The carrying amounts were as follows:

EURk	Secured/ unsecured	Currency	Maturity	**Carrying amount 31/12/2016**	Carrying amount 31/12/2015
Interest rate					
Variable rate	Secured	EUR	2016 – 2023	**0**	33,452
Variable rate	Secured	USD	2016	**0**	18,619
				0	52,071

All of these liabilities have been settled in 2016.

17. Leasing

OPERATING LEASES

The group leases various aircraft, engines, some warehouse and office facilities and other assets under leasing agreements which qualify as operating lease agreements. The leases typically run for a period of up to 11 years and terminate upon expiry of the lease term. The leases expire between 2016 and 2029, with an option to renew the leases after these dates. No restrictions have been placed on the group as a result of these leases.

Non-cancellable operating lease rentals are payable as follows:

EURk	**2016**	2015
Less than one year	**567,405**	655,921
Between one and five years	**1,652,616**	2,118,513
More than five years	**948,546**	1,012,352
	3,168,567	3,786,786

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

During the year ended 31 December 2016, EUR 555,595 (2015: EUR 499,804) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

The group also leases assets as lessor under agreements which qualify as operating leases. The contracts expire in 2017, 2019 and 2021.

Future minimum lease payments are receivable as follows:

EURk	**2016**	2015
Less than one year	**7,751**	6,550
Between one and five years	**14,543**	708
	22,294	7,258

The leasing income does not include any income of the not yet started wet-lease-agreement with the Lufthansa Group.

FINANCE LEASES

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

The net book value of assets capitalised at 31 December 2016 as a result of finance leases is detailed in note 6.

No contingent leasing payments were recorded in profit and loss in 2016 (2015: EUR 0).

Future minimum lease payments are as follows:

	At 31 December 2016		At 31 December 2015	
EURk	**Future minimum lease payments**	**Discounted to present value**	Future minimum lease payments	Discounted to present value
Less than one year	**8,035**	**3,668**	7,814	3,199
Between one and five years	**32,141**	**19,748**	31,120	17,035
More than five years	**26,115**	**15,815**	25,285	20,949
	66,291	**39,231**	64,219	41,183

18. Trade and other payables

	2016			2015		
EURk	Current	Non-current	**Total**	Current	Non-current	Total
Trade payables	117,444	0	**117,444**	137,470	0	137,470
Trade payables to related parties	59,245	0	**59,245**	49,200	0	49,200
Other financial liabilities	19,022	0	**19,022**	12,577	0	12,577
Other financial liabilities to related parties	4,598	0	**4,598**	0	0	0
Trade payables and other financial liabilities	**200,309**	**0**	**200,309**	199,247	0	199,247
Accrued liabilities	336,721	84,072	**420,793**	296,085	54,406	350,491
Receivables with credit balances	5,716	0	**5,716**	2,913	0	2,913
Payroll tax	7,832	0	**7,832**	6,930	0	6,930
VAT	5,167	0	**5,167**	1,323	0	1,323
Social insurance contributions	1,657	0	**1,657**	2,350	0	2,350
Other non-financial liabilities	2,823	0	**2,823**	2,496	0	2,496
	560,225	**84,072**	**644,297**	511,344	54,406	565,750

Accrued liabilities include expenses for services provided and goods received before the end of the period but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the group’s exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 30.

19. Advanced payments received

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

Furthermore the advanced payments include EUR 205,000 received for the sale of the touristic business.

Advanced payments received in the amount of EUR 107,735 have been allocated to liabilities held for sale. For further information see note 5.

20. Revenue

EURk	**2016**	2015
Flight revenue	**3,339,320**	3,631,125
Ancillary services	**219,188**	190,961
Other revenue	**226,902**	259,670
	3,785,410	4,081,756

Other revenue primarily includes freight and technical services.

The group has made the following accounting changes:

The group has changed the presentation of revenue data by type of revenue in these consolidated financial statements as of 31 December 2016. The new presentation enables a better understanding of the development of flight revenue and related ancillary services. The prior year comparative figures have been adjusted accordingly:

EURk	1/15 – 12/15 As reported	Adjustment	1/15 – 12/15 Adjusted
Flight revenue	3,709,408	(78,283)	3,631,125
Ground and other services	343,949	(343,949)	0
Ancillary services	0	190,961	190,961
Other revenue	0	259,670	259,670
Duty-free / Inflight sales	28,399	(28,399)	0
	4,081,756		4,081,756

SEGMENT INFORMATION

The group is managed by the Board of Directors as a single business unit in one geographical area and performing one service. The key figures and ratios presented to the Board of Directors in managing the group are: Result from operating activities, EBITDAR, net debt, revenues, passengers, yield and block hours. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. The vast majority of revenues derive from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since airberlin's aircraft fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

21. Other operating income

EURk	**2016**	2015
Gain on disposal of long-term assets, net	**0**	30,088
Income from insurance claims	**1,711**	1,950
Other	**5,837**	18,785
	7,548	50,823

In 2015 other income included EUR 9,637 income from consulting services.

22. Expenses for materials and services

EURk	2016	2015
Fuel for aircraft	**660,099**	929,726
Airport and handling charges	**820,064**	838,143
Operating leases for aircraft and equipment	**671,785**	619,821
Navigation charges	**240,312**	260,439
Air transportation tax	**146,824**	154,980
Catering costs and cost of materials for in-flight sales	**114,973**	121,279
Other	**138,925**	139,867
	2,792,982	3,064,255

The expenses for operating leases for aircraft and equipment include expenses of EUR 158,959 (2015: EUR 157,831) that do not directly relate to the lease of assets. Expenses of EUR 6,144 (2015: EUR 0) relating to the announced restructuring programme of the group (note 15) are mainly included in Airport and handling charges.

23. Personnel expenses and staff numbers

The aggregate payroll costs were as follows:

EURk	2016	2015
Wages and salaries	**535,591**	499,563
Pension expense	**35,750**	37,999
Social security	**53,529**	51,742
	624,870	589,304

The Wages and salaries include EUR 92,792 (2015: EUR 26,350) of redundancy costs which relate to the announced extension of the restructuring program of the group.

Pension expense relates to the defined benefit plan for the Executive Directors and senior management of EUR 132 (2015: EUR 914) and the AB Finance II GmbH (formerly: dba) pension plan of EUR 88 (2015: EUR 92), contributions paid to defined contribution plans of EUR 7,688 (2015: EUR 8,268) and to social security systems of EUR 27,842 (2015: EUR 29,296) during the period. Further details regarding the pension plans are found in note 14.

Remuneration of the Executive Directors is as follows:

EURk	2016	2015
Basic remuneration	**879**	1,005
Other	**32**	41
	911	1,046

The highest paid Director received EUR 911 in total remuneration in 2016 (2015: EUR 908). Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 65 to 82.

Since October 2012 the operative management of the company is entrusted to a newly established body, the Management Board. The total remuneration for the management board in the reporting period was EUR 4,330 (2015: EUR 4,669), of which EUR 162 (2015: EUR 947) related to pension schemes.

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

Employees	**Annual average 2016**	Annual average 2015	**At 31 December 2016**	At 31 December 2015
Flight and cabin crew	**4,892**	5,019	**4,973**	4,926
Sales, operations and administration	**3,710**	4,046	**3,508**	3,943
	8,602	9,065	**8,481**	8,869

24. Other operating expenses

EURk	**2016**	2015
Repairs and maintenance of technical equipment	**320,735**	268,593
Sales and distribution expenses (incl. commissions)	**126,727**	128,385
Net loss on disposal of non-current assets and related expenses	**92,065**	0
Compensation payments	**63,837**	38,989
Expenses for onerous contracts	**51,116**	0
Expenses for premises and vehicles	**48,584**	42,750
Advertising	**44,697**	48,639
Travel expenses for cabin crews	**32,621**	28,495
Bank charges	**32,132**	28,675
Consulting fees	**26,119**	16,541
IT related expenses	**18,888**	15,494
Training and other personnel expenses	**14,569**	18,828
Insurance	**10,769**	14,522
Phone and postage	**3,082**	3,574
Allowances for receivables	**1,083**	2,446
Remuneration of the auditor	**1,764**	2,097
Other	**67,464**	81,961
	956,252	739,989

The Other operating expenses include EUR 50,861 (2015: EUR 0) arisen in context of the announced restructuring programme of the group.

Net loss on disposal of non-current assets and related expenses of EUR 88,607 relates to the disposal of landing rights (Note 5).

Remuneration of the auditor is as follows:

EURk	**2016**	2015
Audit of the annual accounts	**268**	380
Audit of accounts of subsidiaries of the Company	**843**	1,071
Audit related services	**395**	366
Taxation advisory services	**222**	106
Other services	**36**	174
	1,764	2,097

25. Net financing costs

EURk	2016	2015
Interest expense on interest-bearing liabilities	**(101,116)**	(86,457)
Other financial expenses including guarantee fees	**(11,376)**	(3,491)
Financial expenses	**(112,492)**	(89,948)
Interest income on fixed deposits	**387**	86
Interest income on loans and receivables	**3**	18
Other financial income	**660**	872
Financial income	**1,050**	976
Loss on foreign exchange and derivatives, net	**(29,518)**	(31,529)
Net financing costs	**(140,960)**	(120,501)

The loss on foreign exchange and derivatives includes the expense on valuation of liability from embedded derivative at fair value of EUR 8,765 (Note 16).

As described in note 4n, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses. Total net foreign exchange (losses) gains are reconciled to foreign exchange gains or (losses) in profit or loss as follows:

EURk	2016	2015
Total net foreign exchange result recognised in profit or loss	**(17,305)**	132,996
Thereof reclassified to operating expenses	**(14,414)**	(163,322)
Foreign exchange loss in financial result	**(31,719)**	(30,326)

26. Share of profit/loss of at equity investments

EURk	2016	2015
airberlin holidays GmbH (primary: Binoli GmbH)	**681**	688
THBG BBI GmbH	**332**	11
IHY IZMIR HAVAYOLLARI A.S.	**60**	(3,913)
AuSoCon	**19**	0
	1.092	(3,214)

27. Income tax expenses and deferred taxes

Loss before tax is primarily attributable to Germany and Austria.

Income tax expense is as follows:

EURk	2016	2015
Current income tax expense	**(2,343)**	(3,143)
Deferred income tax benefit (expense)	**27,367**	(12,825)
Total income tax benefit (expense)	**25,024**	(15,968)

The current income tax expense of the airberlin group includes corporate tax, a solidarity charge in addition to corporate tax, trade tax and foreign income taxes. The current income tax expense of EUR 2,343 (2015: 3,143 EUR) includes EUR 158 of prior year income tax benefit (2015: expense of EUR 415).

The tax rate for the airberlin group equals 30.18% (2015: 30.18%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.35%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

As a result of variations in the tax rate in different jurisdictions, several subsidiaries have tax rates which differ from the airberlin group tax rate. The difference to the group tax rate is shown as "effect of tax rates in different jurisdictions" in the tax rate reconciliation in the amount of EUR (7,878) (2015: EUR (5,445)).

As at 31 December 2016, it is not certain that tax losses can be utilised by either future profits or using adequate tax structuring strategies. Therefore deferred tax assets on tax losses were only recognised up to the extent of recognised deferred tax liabilities.

The group accounts for the market value of derivatives, which have been designated for hedge accounting purposes, including deferred tax assets within the other comprehensive income. In the previous year, no deferred tax was recognised on the negative market value, as the conditions for the recognition of deferred tax assets on the negative market value of fuel hedge contracts had not been met.

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

EURk	**2016**	2015
Loss before tax	**(806,919)**	(430,668)
Expected income tax benefit at 30.18% (2015: 30.18%)	**243,528**	129,975
Effect of tax rates in different jurisdictions	**(7,878)**	(5,445)
Movement in deferred tax assets on tax loss carry forwards	**(168,392)**	(114,079)
Tax-free income and non-tax deductible expenses	**(40,680)**	(26,603)
Current tax benefit (expense) for previous years	**158**	(415)
Other	**(1,711)**	599
Total income tax (expense) benefit	**25,024**	(15,968)

As of 31 December 2016, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 37,768 for trade tax purposes and EUR 50,801 for corporate tax purposes (2015: EUR 73,720 and EUR 164,627 respectively). Thereof EUR 37,768 (2015: EUR 73,720) for trade tax purposes and EUR 50,801 (2015: EUR 164,627) for corporate tax purposes have been recognised to offset deferred tax liabilities. As of 31 December 2016, additional deferred tax assets have not been recognised for further loss carry forwards of EUR 1,772,042 for trade tax and EUR 1,901,243 for corporate tax (2015: EUR 1,237,154 and EUR 1,267,767). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

EURk	2016	2015
Deferred tax assets		
Foreign currency receivables and derivatives	**598**	3,263
Intangible assets	**0**	864
Technical equipment	**5,630**	3,585
Accrued liabilities and provisions	**37,756**	15,074
Tax loss carry forwards	**13,442**	36,616
	57,426	59,402
Deferred tax liabilities		
Finance lease liabilities and deferred income	**(13,051)**	(9,218)
Aircraft and related liabilities	**0**	(5,879)
Intangible assets	**(25,028)**	(50,247)
Leasehold improvements	**(22)**	(33)
Accrued liabilities and provisions	**(8,315)**	(8,772)
Convertible bonds, corporate bonds	**(5,371)**	(6,040)
Foreign currency liabilities and derivatives	**(14,685)**	(879)
	(66,472	(81,068)
Offsetting	**57,426**	59,402
Deferred tax liabilities, net	**(9,046)**	(21,666)
Deferred tax liabilities, net beginning of period	**(21,666)**	(6,981)
Change in deferred tax position	**12,620**	(14,685)
Thereof related to cash flow hedges and items recorded in equity	**14,747**	1,860
Deferred income tax (expense) benefit	**27,367**	(12,825)

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

EURk	2016	2015
Deferred tax asset	**0**	0
Deferred tax liabilities	**(9,046)**	(21,666)
	(9,046)	(21,666)

Offsetting is possible, as far as the assets and liabilities are subject to the same jurisdictions.

INCOME TAX RECOGNISED IN THE STATEMENT OF OTHER COMPREHENSIVE INCOME

	2016			2015		
EURk	Before tax	Tax result	**Net of tax**	Before tax	Tax result	**Net of tax**
Foreign currency translation differences for foreign operations	786	0	**786**	1,434	0	**1,434**
Fair value of hedging instruments	126,212	(14,747)	**111,465**	72,739	(1,860)	**70,879**
	126,998	(14,747)	**112,251**	74,173	(1,860)	**72,313**

28. Cash flow statement

The cash flow statement of the airberlin group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

EURk	2016	2015
Cash	**70**	105
Bank balances	**118,065**	51,655
Fixed-term deposits	**125,868**	113,475
Cash and cash equivalents	**244,003**	165,235
Bank overdrafts used for cash management purposes	**(115)**	(25)
Cash and cash equivalents in the statement of cash flows	**243,888**	165,210
Bank balances allocated to assets held for sale	**(12,038)**	0
Fixed-term deposits allocated to assets held for sale	**(11,648)**	0
Cash and cash equivalents as shown in the consolidated statement of financial position	**220,317**	165,235

Cash and cash equivalents include restricted cash of EUR 125,868 as at 31 December 2016 (2015: EUR 113,475).

29. Derivatives

Positive and negative market values of derivatives, all current, are as follows:

EURk	2016	2015
Derivatives classified as hedge accounting		
Positive market values	**51,260**	25,125
Negative market values	**(2,446)**	(108,221)
	48,814	(83,096)
Related underlying		
Fuel price	**15,058**	(108,039)
Foreign exchange rate	**33,756**	24,943
	48,814	(83,096)
Derivatives classified as held for trading		
Positive market values	**459**	1,186
Negative market values	**0**	(5,996)
	459	(4,810)
Related underlying		
Fuel price	**0**	(5,477)
Foreign exchange rate	**456**	690
Interest rate	**3**	(23)
	459	(4,810)

HEDGE ACCOUNTING

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

airberlin applies cashflow hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility.

IAS 39 sets out strict requirements on the use of hedge accounting. airberlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss.

airberlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives airberlin recognises the changes in fair value in profit or loss. The fair values of derivatives are presented in a separate line in the statement of financial position.

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

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

MASTER NETTING OR SIMILAR AGREEMENTS

The group enters into derivative transactions under master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payables by one party to the other. In certain circumstances – e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

These agreements do not meet the criteria for offsetting in the statement of financial position. This is because the group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements as at 31 December 2016:

Description	Gross amounts of recognised financial assets/ liabilities	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Cash collateral received/ pledged	Net amount
Derivatives with positive market value	**51,719**	**0**	**51,719**	**(2,446)**	**0**	**49,273**
Derivatives with negative market value	**(2,446)**	**0**	**(2,446)**	**2,446**	**0**	**0**

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements as at 31 December 2015:

Description	Gross amounts of recognised financial assets/ liabilities	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Cash collateral received/ pledged	Net amount
Derivatives with positive market value	26,311	0	26,311	(23,251)	0	3,060
Derivatives with negative market value	(114,217)	0	(114,217)	23,251	0	(90,966)

30. Financial risk management

A) CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit at the reporting date was:

EURk	Note	2016	2015
Loans and receivables	9	**391,332**	307,330
Positive market values of derivatives classified as held for trading	29	**459**	1,186
Positive market values of derivatives classified as hedge accounting	29	**51,260**	25,125
Cash and cash equivalents	5, 28	**244,003**	165,235
		687,054	498,876

B) IMPAIRMENT LOSSES

Trade receivables and receivables from related parties

The aging of trade receivables at the reporting date was:

	2016		2015	
EURk	**Gross**	**Impairment**	Gross	Impairment
Not past due	**160,707**	**0**	150,315	0
Past due 1 – 30 days	**15,175**	**55**	11,637	55
Past due 31 – 120 days	**26,746**	**228**	6,586	228
Past due 121 – 365 days	**5,919**	**4,133**	11,955	3,683
More than one year past due	**15,170**	**11,364**	15,852	13,857
	223,717	**15,780**	196,345	17,823

Trade receivables are analysed for a possible impairment loss according to historical data on impairment losses as discussed below. Receivables which are neither past due nor impaired are generally considered to contain only a small risk of impairment based on past experience. The consideration is the same for receivables that are 1 – 30 days overdue.

The movement in the impairment allowance is as follows:

EURk	**2016**	2015
Balance at 1 January	**17,823**	19,413
Increase in allowance for impairment losses	**799**	1,803
Utilisation of allowance for impairment losses	**0**	(29)
Release of allowance for impairment losses	**(2,842)**	(3,364)
Balance at 31 December	**15,780**	17,823

The allowance for impairment losses is used to record impairment losses until the group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the creditworthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A company-wide credit control process is implemented. Once the third notice is issued along with a court order, an allowance for impairment losses of 60% is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. At the balance sheet date the allowance for impairment losses is EUR 15,780 (2015: EUR 17,823).

Other loans and receivables

None of the other loans and receivables were past due as of 31 December 2016 (2015: none), and there were no renegotiations of payment terms during the period which would otherwise have resulted in overdue receivables. No impairment losses have been recorded on other financial assets (2015: EUR none).

These receivables relate primarily to amounts due from suppliers (deposits, bonus and claims). The group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

As the receivables are not overdue and payments have been made on time in the past, the group does not consider an impairment loss to be necessary.

Cash and cash equivalents and positive market values of derivatives

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties that are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). The group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.

C) LIQUIDITY RISK

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2016:

EURk	Note	Contractual cash flows	12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities					
Interest-bearing liabilities due to aircraft financing	16	0	0	0	0
Interest bearing liabilities	16	(1,668,011)	(313,662)	(1,336,270)	(18,079)
Trade payables and other financial liabilities	18	(200,309)	(200,309)	0	0
Total non-derivative financial liabilities		**(1,868,320)**	**(513,971)**	**(1,336,270)**	**(18,079)**
Derivatives					
Derivatives with positive market values	29				
Outflow		(579,824)	(579,824)	0	0
Inflow		627,556	627,556	0	0
Derivatives with negative market values	29				
Outflow		(2,869)	(2,869)	0	0
Inflow		2,848	2,848	0	0
Total derivatives		**47,711**	**47,711**	**0**	**0**

For 31 December 2015, the maturities were as follows:

EURk	Note	Contractual cash flows	12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities					
Interest-bearing liabilities due to aircraft financing	16	(53,348)	(23,481)	(19,217)	(10,650)
Interest bearing liabilities	16	(1,311,012)	(80,887)	(976,139)	(253,986)
Trade payables and other financial liabilities	18	(199,247)	(199,247)	0	0
Total non-derivative financial liabilities		**(1,563,607)**	**(303,615)**	**(995,356)**	**(264,636)**
Derivatives					
Derivatives with positive market values					
Outflow		(759,676)	(759,676)	0	0
Inflow		784,217	784,217	0	0
Derivatives with negative market values	29				
Outflow		(184,772)	(184,772)	0	0
Inflow		65,855	65,855	0	0
Total derivatives		**(94,376)**	**(94,376)**	**0**	**0**

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, including future interest payments. Amounts in USD are translated at the relevant year-end exchange rate, and variable interest payments are calculated using the year-end basis rates.

The group intends to meet its obligations primarily through cash balances held and cash inflows from operations and in the case of purchases of new aircraft (not included above) through future borrowings which are already in place for aircraft deliveries in 2016.

D) CURRENCY RISK

The group has significant transactions in USD as well as smaller transactions in AED, GBP, and CHF. airberlin enters into USD and AED currency forwards and USD options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD and financing costs denominated in USD and AED. The group applies cashflow hedge accounting for most foreign exchange derivatives. airberlin generally hedges at least 75% of the expected cash flow on a 1 – 3 month revolving basis and at least 35% of the expected cash flow on a 4 – 12 month revolving basis (2015: identical).

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

	2016				2015			
In thousands of currency units	**USD**	**AED**	**GBP**	**CHF**	USD	AED	GBP	CHF
Loans and receivables	**80,093**	**0**	**751**	**494**	105,483	0	663	969
Cash and cash equivalents	**75,350**	**6,774**	**1,411**	**5,006**	61,942	0	230	6,497
Interest-bearing liabilities due to aircraft financing	**0**	**0**	**0**	**0**	(20,270)	0	0	0
Interest-bearing liabilities	**(528,995)**	**(731,073)**	**0**	**(100,816)**	(44,798)	0	0	(100,815)
Trade payables and other financial liabilities	**(213,524)**	**0**	**(1,009)**	**(6,232)**	(158,711)	0	(1,008)	(5,672)
Total exposure of balance positions	**(587,076)**	**(724,299)**	**1,153**	**(101,548)**	(56,354)	0	(115)	(99,021)
Estimated forecast purchases	**(827,322)**	**0**	**17,014**	**66**	(1,412,685)	0	11,889	(55,318)
Gross exposure	**(1,414,398)**	**(724,299)**	**18,167**	**(101,482)**	(1,469,039)	0	11,774	(154,339)
Hedged volume	**533,000**	**430,000**	**0**	**0**	1,019,000	0	0	0
Net exposure	**(881,398)**	**(294,299)**	**18,167**	**(101,482)**	(450,039)	0	11,774	(154,339)

The estimated forecast purchases shown above are for a twelve-month period. The volume hedged through forward exchange contracts and forward exchange options is for estimated forecast purchases for up to two years.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
Currency units to the EUR	**2016**	2015	**2016**	2015
USD	**1.1069**	1.1095	**1.0541**	1.0887
GBP	**0.8195**	0.7258	**0.8562**	0.7340
CHF	**1.0902**	1.0679	**1.0739**	1.0835
AED	**4.0514**	4.0565	**3.8696**	3.9966

Sensitivity analysis

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Due to options used for hedging purposes the sensitivity is not a linear function of the underlying foreign exchange rates. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the following amounts:

	2016				2015			
Effect in EURk	USD	AED	GBP	CHF	USD	AED	GBP	CHF
Profit or loss	49,855	16,906	(122)	6,473	1,269	0	14	6,181
Equity	(37,904)	(8,584)	0	0	(68,845)	0	0	0

A 10 per cent weakening of the Euro against the above mentioned currencies at 31 December would have increased (decreased) equity and profit or loss by the following amounts:

	2016				2015			
Effect in EURk	USD	AED	GBP	CHF	USD	AED	GBP	CHF
Profit or loss	(60,934)	(19,614)	149	(7,961)	(438)	0	(17)	(7,621)
Equity	49,862	13,401	0	0	88,299	0	0	0

E) INTEREST RATE RISK

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

	Carrying amount	
EURk	2016	2015
Fixed rate instruments		
Financial assets	13,260	11,119
Financial liabilities	(1,387,699)	(984,042)
Interest rate instruments	3	(23)
	(1,374,436)	(972,946)

	Carrying amount	
EURk	2016	2015
Variable rate instruments		
Financial liabilities	(115)	(52,752)
	(115)	(52,752)

Fair value sensitivity analysis

The group does not account for any fixed rate financial instruments at fair value through profit or loss, and the group does not designate any of its interest rate derivatives as fair value hedge accounting instruments. Due to the use of options for hedging purposes the sensitivity is not a linear function of the interest rate. A change of +/– 100 basis points in interest rates would have increased or decreased equity by EUR 0 (2015: EUR 0) and increased profit or loss by EUR 0 (2015: EUR 0) respectively decreased by EUR 0 (2015: 0) based on a one year impact.

Cash flow sensitivity analysis

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of +/– 100 basis points in interest rates would have increased respectively decreased profit or loss (financial result) by EUR 0 (2015: EUR 0) and had no effect on equity over the twelve-month period, based on the balance sheet amounts at the reporting date and taking into consideration the effect of interest rate derivatives.

F) FUEL PRICE RISK

The fuel price (jet fuel) plays an important role as far as the business performance of the group is concerned. Fuel expense amounted to 14.8% (2015: 21.0%) of the group's entire operating expenses. airberlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. airberlin applies cashflow hedge accounting for most of its commodity derivatives. At the end of the period 2016, the hedged volume was 242,000 tons for the 2017 financial year (2015: 756,000 tons for 2016). The hedging quota was 23.03% for 2017 (2015: 58.0% for 2016).

Sensitivity analysis

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

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

	2016		2015	
Effect in EURk	**+10%**	**–10%**	+10%	–10%
Profit or loss	**2,243**	**(5,272)**	748	(1,057)
Equity	**14,911**	**(6,468)**	22,124	(22,228)

G) CATEGORIES AND FAIR VALUES

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 December 2016 are as follows:

EURk	Note	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs/at fair value	Total carrying amount	Fair value
Trade receivables and other assets	9	391,322	0	0	0	391,322	391,322
Derivatives classified as held for trading with positive market values	29	0	459	0	0	459	459
Derivatives classified as hedge accounting with positive market values	29	0	0	51,260	0	51,260	51,260
Cash and cash equivalents	5, 28	244,003	0	0	0	244,003	244,003
		635,325	459	51,260	0	687,044	687,044
Derivatives classified as held for trading with negative market values	29	0	0	0	0	0	0
Derivatives classified as hedge accounting with negative market values	29	0	0	(2,446)	0	(2,446)	(2,446)
Financial liabilities at amortised costs	16	0	0	0	(1,574,086)	(1,574,086)	(1,430,197)
Finance lease liabilities	17	0	0	0	(39,231)	(39,231)	(39,231)
Bank overdrafts used for cash management purposes	28	0	0	0	(115)	(115)	(115)
		0	0	(2,446)	(1,613,432)	(1,615,878)	(1,471,989)

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 December 2015 were as follows:

EURk	Note	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs/at fair value	Total carrying amount	Fair value
Trade receivables and other assets	9	307,330	0	0	0	307,330	307,330
Derivatives classified as held for trading with positive market values	29	0	1,186	0	0	1,186	1,186
Derivatives classified as hedge accounting with positive market values	29	0	0	25,125	0	25,125	25,125
Cash and cash equivalents	28	165,235	0	0	0	165,235	165,235
		472,565	1,186	25,125	0	498,876	498,876
Derivatives classified as held for trading with negative market values	29	0	(5,996)	0	0	(5,996)	(5,996)
Derivatives classified as hedge accounting with negative market values	29	0	0	(108,221)	0	(108,221)	(108,221)
Financial liabilities at amortised costs	16	0	0	0	(1,237,370)	(1,237,370)	(1,179,722)
Finance lease liabilities	17	0	0	0	(41,183)	(41,183)	(41,183)
Bank overdrafts used for cash management purposes	28	0	0	0	(25)	(25)	(25)
		0	(5,996)	(108,221)	(1,278,578)	(1,392,795)	(1,335,147)

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

Derivatives

Forward exchange, interest rate and fuel derivatives are carried at fair value and are internally valuated regularly by the use of option pricing models and the discounted cashflow method. The valuation is performed using the quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Therefore, all the derivative financial instruments of airberlin relate to the level 2 of the three level-hierarchy as defined in IFRS 13.93.

Convertible bond embedded derivative

The group identified an embedded derivative in the convertible bond issued 6 March 2013. The embedded derivative is classified as a level 2 of the three level-hierarchy as defined in IFRS 13.93. The fair value of the embedded derivative as of 31 December 2016 was EUR (8,765) (2015: EUR 0).

Financial liabilities

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

H) NET GAIN OR LOSS

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

EURk	2016	2015
Loans and receivables	**8,950**	5,975
Cash and cash equivalents	**2,817**	5,944
Derivatives	**(68,606)**	(176,800)
Financial liabilities measured at amortised cost	**(48,968)**	(43,706)
Financial liabilities measured at fair value	**(8,765)**	0
	(114,572)	(208,587)

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

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2015: none). Interest income/expense is disclosed in note 25.

31. Related party transactions

TRANSACTIONS WITH DIRECTORS OF THE GROUP

The group has related party relationships with its Directors and its at equity investments (see note 9). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 65 to 82).

Members of the Board of Directors control a voting share of 3.25% of Air Berlin PLC (2015: 3.13%).

One of the non-executive directors, also a shareholder of the Company, is the controlling shareholder of Phoenix Reisen GmbH. The group had revenues from ticket sales with Phoenix Reisen GmbH of EUR 1,485 (2015: EUR 3,815). At 31 December 2016, EUR 13 (2015: EUR 19) are included in the trade receivables line.

TRANSACTIONS WITH MAJOR SHAREHOLDER AND RESPECTIVE RELATED PARTIES

EURk	2016	2015
Etihad Airways PJSC		
Long-term loans including accrued interest	242,074	206,761
Interest expense	17,987	3,042
Guarantee fee	11,492	0
Commission income from code-share-agreement	1,758	1,900
Commission expense from code-share-agreement	3,591	4,011
Commission income from other services	14,154	11,269
Commission expense from other services	9,060	9,765
Other income	403	633
Purchases of fixed assets	0	11,140
Trade and other accounts receivable	3,902	4,342
Trade and other accounts payable	59,041	43,184
Advances received	216,331	20,000
Guarantees	263,902	0
Etihad Airways Engineering LLC		
Revenue from other services	149	21
Repairs and maintenance of technical equipment	11,434	7,485
Trade and other accounts payable	2,770	1,145
Etihad Airport Services - Catering LLC		
Catering	3,389	3,239
Trade and other accounts receivable	0	611
Trade and other accounts payable	87	42
Etihad Airport Services - Ground LLC		
Revenue from ground services	0	10
Handling expense	3,278	3,210
Trade and other accounts receivable	543	592
Trade and other accounts payable	11	26
Etihad Airport Services - Cargo LLC		
Revenue from other services	819	2,145
Other operating expense	13	11
Trade and other accounts receivable	98	48
Trade and other accounts payable	2	1
EA Partners I B.V.		
Long-term loans including accrued interest	119,941	120,061
Deposit	8,733	7,182
Interest expense	13,982	3,330
EA Partners II B.V.		
Long-term loans including accrued interest	93,481	0
Deposit	5,012	0
Interest expense	6,122	0
Stichting EA Partners I		
Long-term loans receivable including accrued interest	2,214	2,047
Stichting EA Partners II		
Long-term loans receivable including accrued interest	2,081	0
Air Serbia A.D.		
Commission income from code-share-agreement	224	0
Commission expense from code-share-agreement	142	61
Air Seychelles Ltd.		
Commission income from code-share-agreement	32	40
Commission expense from code-share-agreement	23	17

EURk	2016	2015
Alitalia Societa Aerea Italiana S.P.A. (inclusive special purposes entities)		
Purchases of aircraft	0	215,456
Commission income from code-share-agreement	978	0
Commission expense from code-share-agreement	1,984	0
Darwin Airline SA		
Commission income from code-share-agreement	4	0
Commission expense from code-share-agreement	11	0
Operating leasing for aircraft	2,833	7,624
Jet Airways Ltd		
Commission income from code-share-agreement	26	0
Commission expense from code-share-agreement	66	31
Virgin Australia		
Commission income from code-share-agreement	17	0
Commission expense from code-share-agreement	51	0

Transactions with at equity investments

During the year ended 31 December 2016 respectively 2015 the group had transactions with associates as follows:

EURk	2016	2015
THBG BBI GmbH		
Loans receivable from related parties	3,213	3,072
Interest Income	141	134
Income from other services	0	50
airberlin holidays GmbH (primary: Binoli GmbH)		
Receivables from related parties	73	150
Revenues from ticket sales	12,445	12,390
Other operating expenses	35	16
Dividends	613	686
E190 Flugzeugvermietung GmbH		
Expenses for leasing	0	533
Income from other services	0	2,335
Topbonus Ltd		
Receivables from related parties	4,431	2,362
Payables to related parties	1,932	4,802
Revenues from ticket sales	8,122	7,856
Expenses for miles	24,609	29,566
AuSoCon Berlin Call Center GmbH		
Expenses for services	0	2,909

Transactions with associates are priced on an arm’s length basis.

32. Executive Board of Directors

Stefan Pichler	Chief Executive Officer	(until 31 January 2017)
Thomas Winkelmann	Chief Executive Officer	(since 1 February 2017)

33. Subsequent events

22 February 2017: airberlin issued a new 8.5% convertible bond in the amount of EUR 125,000 maturing in 2019 (ISIN: DE000A19DMC0) (the "New Convertible Bonds") as part of an exchange offer for the outstanding 6% convertible bond DE000A1HGM38. Holders of the DE000A1HGM38 convertible bond have exercised this option in the total nominal amount of EUR 41,300. In addition to the exchange offer, new convertible bonds with a total nominal value of EUR 83,700 were also issued. Holders of the 6% convertible bond DE000A1HGM38 exercised their bondholder put option with effect on 6 March 2017 with respect to EUR 93,200 of principal, resulting in an outstanding principal amount of EUR 5,500 as of 7 March 2017.

Holders of the 1.5% convertible bond DE000A0NQ9H6 exercised their bondholder put option with effect on 11 April 2017 with respect to EUR 4,600 of principal, resulting in an outstanding principal amount of EUR 200 as of 12 April 2017.

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

28 April 2017: Etihad Airways PJSC granted a loan facility to the Company in the amount of EUR 350,000 with a term until 31 December 2021.

28 April 2017: Etihad Airways PJSC issued a letter to the Company undertaking that it will not directly or indirectly exercise the put option on 29 December 2017 under the New Convertible Bonds with respect to the amount it holds (total of EUR 93,700).

28 April 2017: Etihad Airways PJSC confirmed via a letter of support its intention to provide the necessary support to the Company to enable it to meet its financial obligations as they fall due for payment for the foreseeable future and in any event for 18 months from 28 April 2017.

30 April 2017: Abu Dhabi Commercial Bank PJSC – extension of the AED 726,425 loan to 30 April 2019.

30 April 2017: National Bank of Abu Dhabi PJSC – extension of the EUR 75,000 loan to 24 April 2019.

34. Notes to the company's statement of financial position

A) SIGNIFICANT ACCOUNTING POLICIES

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

Investments in subsidiaries and in at equity investments are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to at equity investments are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and liabilities in the statement of financial position.

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

- Loans and receivables
- Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The Company has defined the following classes of financial assets and liabilities:

- Loans and receivables
- Derivative financial instruments classified as held for trading
- Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)
- Cash and cash equivalents

B) INVESTMENTS IN SUBSIDIARIES AND AT EQUITY INVESTMENTS

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 35 to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

In 2016 the group continued to streamline its structure. As part of the reorganisation, the subsidiary Air Berlin Finance GmbH was merged at carrying amounts to the Company. In 2015 intercompany receivables and payables previously made by the company were capitalised.

To assess the recoverable amount of investments, management have performed an impairment test to derive a value for the recoverable amount of the Company investments using the methodology and the assumptions described in note 5 to the consolidated financial statements. An overall sense check has then been performed to the market capitalisation plus fair value of net debt. This exercise indicated an impairment of EUR 603,000 and therefore an impairment loss of that amount has been recognised.

EURk	2016	2015
Acquisition cost		
Balance at 1 January	**1,260,007**	1,165,018
Contribution of intercompany receivables and payables into to subsidiaries' equity, net	**0**	94,989
Disposals	**(25)**	0
Balance at 31 December	**1,259,982**	1,260,007
Amortisation		
Balance at 1 January	**0**	0
Impairment loss	**603,000**	0
Balance at 31 December	**603,000**	0
Carrying amount		
At 31 December	**656,982**	1,260,007

In 2016 the Company purchased 29.5% of the shares of IHY IZMIR HAVAYOLLARI A.S. which are reclassified as assets held for sale.

C) DEFERRED TAX ASSETS

Profit or loss before tax is completely attributable to Germany.

Income tax expense (benefit) is as follows:

EURk	2016	2015
Current income tax (expense) benefit	**(290)**	404
Deferred income tax benefit	**2,553**	(2,303)
Total income tax (expense) benefit	**2,263**	(1,899)

Current income taxes of the Company include corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax expense includes EUR 290 of prior year income tax expenses (2015: income tax benefit EUR 404). The tax rate of the Company equals 30.03% (2015: 30.03%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.20%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

As at 31 December 2016, it is still the management's view that certain tax losses can be utilised by either future profits or using adequate tax structuring strategies. Nevertheless, deferred tax assets on tax losses were only recognised up to the extent of recognised deferred tax liabilities.

The company accounts for the market value of derivatives, which have been designated for hedge accounting purposes, including deferred tax liabilities within the other comprehensive income. In the previous year, these derivatives were accounted net of deferred tax, as the conditions for the recognition of deferred tax assets on the negative market value of fuel hedge contracts had not been met.

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

EURk	2016	2015
Loss before tax	**(674,030)**	(95,288)
Expected income tax benefit at 30.03% (2014: 30.03%)	**202,411**	28,615
Effect of tax pooling agreements with subsidiaries	**5,821**	2,479
Derecognition of deferred tax assets on tax loss carry forwards	**(11,355)**	(10,398)
Non-recognition of deferred tax assets on negative market values of derivatives	**15,316**	2,083
Effect of differences in tax base (from non-deductible expenses)	**(210,251)**	(25,907)
Current tax benefit (expense) for previous years	**(290)**	404
Other	**611**	825
Total income tax (expense) benefit	**2,263**	(1,899)

As of 31 December 2016, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 12,283 (2015: EUR 10,963) for trade tax purposes and EUR 12,283 (2015: EUR 10,963) for corporate tax purposes. Thereof EUR 12,283 (2015: EUR 10,963) for trade tax purposes and EUR 12,283 (2015: EUR 10,963) for corporate tax purposes have been recognised to offset deferred tax liabilities.

As of 31 December 2016, no additional deferred tax assets were capitalised for further loss carry forwards of EUR 222,533 for trade tax and EUR 479,914 for corporate tax (2015: EUR 155,877 for trade tax and EUR 459,093 for corporate tax). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

EURk	2016	2015
Deferred tax assets		
Accrued liabilities and provisions	**4,349**	3,291
Negative market values of derivatives	**136**	0
Tax loss carry forwards	**3,689**	3,293
	8,174	6,584
Deferred tax liabilities		
Convertible bonds, corporate bonds	**(5,371)**	(6,040)
Positive market values of derivatives	**(2,803)**	(3,097)
	(8,174)	(9.137)
Offsetting	**8,174**	6,584
Deferred tax assets, net	**0**	(2,553)
Deferred tax assets, net beginning of period	**(2,553)**	(250)
Change in deferred tax position	**2,553**	(2,303)
Thereof related to items recorded in equity	**0**	0
Deferred income tax (expense) benefit	**2,553**	(2,303)

D) LOANS TO SUBSIDIARIES

During 2016 Air Berlin PLC gave EUR 296,725 loans to Air Berlin PLC & Co. Luftverkehrs KG. As of 31 December 2016 loans were outstanding to Air Berlin PLC & Co. Luftverkehrs KG of EUR 380,519 (2015: EUR 122,383). EUR 41,394 has been redeemed by Air Berlin PLC & Co. Luftverkehrs KG during the reporting period.

E) RECEIVABLES FROM SUBSIDIARIES

The receivables from subsidiaries result from trade, clearing accounts and interest for the group loans.

F) DEFERRED EXPENSES

Deferred expenses mainly consist of prepaid expenses for aircraft leasing agreements.

G) SHARE CAPITAL AND RESERVES

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

A full description of the Company's share capital and reserves and hybrid capital is detailed in note 11 and note 12 to the consolidated financial statements.

H) PENSIONS

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

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

EURk	**2016**	2015
Present value of funded obligations	**7,271**	7,797
Fair value of plan assets	**(5,845)**	(6,936)
Funded status	**1,426**	861
Net defined benefit asset	**0**	0

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

EURk	**2016**	2015
Defined benefit obligation at 1 January	**7,797**	5,179
Current service cost	**120**	521
Benefits paid	**(1,402)**	0
Interest on obligation	**162**	96
Actuarial losses	**594**	2,001
Defined benefit obligation at 31 December	**7,271**	7,797

Sensitivities of the defined benefit obligation are as follows:

EURk	**2016**
Defined benefit obligation at 31 December 2016	**7,271**
Defined benefit obligation at 0.5 percentage points lower interest rate	**8,362**
Defined benefit obligation at 0.5 percentage points higher interest rate	**6,345**

The effect of inflation on the defined benefit obligation is seen to be immaterial.

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

EURk	2016	2015
Fair value of plan assets at 1 January	**6,936**	5,856
Contribution	**188**	963
Benefits paid	**(1,402)**	0
Expected return on plan assets	**146**	116
Actual loss on plan assets	**(23)**	1
Fair value of plan assets at 31 December	**5,845**	6,936

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

The actual loss on plan assets was EUR 23 during the period (2015: gain EUR 1).

The amount recognised as pension expense in profit or loss and other comprehensive income is as follows:

EURk	2016	2015
Current service cost	**120**	521
Net interest on defined benefit pension plan obligation	**16**	(20)
Pension expense recognised in profit and loss	**136**	501
Net actuarial losses recognised in the period	**593**	2,001
Actuarial gain on plan assets	**23**	(1)
Loss recognized in other comprehensive income	**616**	2,000

The Company expects to contribute EUR 103 to its defined benefit pension plans in 2017.

Principal actuarial assumptions at the reporting date are as follows:

Percent	2016	2015
Discount rate at 31 December	**1.85**	2.08
Future salary increases	**0.00**	0.00
Cost of living adjustment (future pension increases)	**1.00**	1.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

I) OTHER LIABILITIES TO SUBSIDIARIES

The convertible bonds were issued by AB Finance B.V. in 2007 and 2013 (see note 16), and the proceeds were transferred to Air Berlin PLC as loans with the same conditions as the bonds.

Disclosures regarding the convertible bonds and the disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bonds are detailed in note 16 and 30c to the consolidated financial statements.

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

Furthermore the Company issued three corporate bonds and is accounting for these bonds in the same way as the group. For further information see note 16.

J) ACCRUED LIABILITIES AND PROVISIONS

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the end of the period.

Provisions include EUR 2,906 relating to an obligation on operate lease agreements for aircraft (2015: EUR 3,684).

K) PAYABLES TO SUBSIDIARIES

Payables to subsidiaries include EUR 27,073 (2015: EUR 66,771) regarding profit and loss transfers, EUR 384 (2015: 384) regarding cash pooling agreements, EUR 3,258 (2015: EUR 10,006) related to deferred purchase price payments of aircraft.

L) FAIR VALUES

The carrying amounts of financial assets and liabilities approximate their fair values. The fair values of financial assets and liabilities, together with their carrying amounts as at 31 December shown in the statement of financial position, are as follows:

		2016		2015	
EURk	Note	Carrying amount	Fair value	Carrying amount	Fair value
Loans to subsidiaries	34d	**380,519**	**380,519**	122,383	122,383
Receivables from subsidiaries	34e	**23,618**	**23,618**	31,459	31,459
Total loans and receivables		**404,137**	**404,137**	153,842	153,842
Positive market values of derivatives classified as held for trading		**9,839**	**9,839**	3,637	3,637
Cash and cash equivalents		**2,003**	**2,003**	270	270
Interest-bearing liabilities	16	**(974,181)**	**(874,847)**	(606,806)	(573,805)
Payables to subsidiaries	34k, i	**(426,804)**	**(426,804)**	(406,423)	(406,423)
Trade and other payables		**(34,601)**	**(34,601)**	(9,382)	(9,382)
Total financial liabilities measured at amortised cost		**(1,435,586)**	**(1,336,252)**	(1,022,611)	(989,610)
Negative market values of derivatives classified as held for trading		**(508)**	**(508)**	(45,292)	(45,292)
		(1,020,115)	**(920,781)**	(910,154)	(877,153)

M) RELATED PARTY TRANSACTIONS

The Company has related party relationships with its Directors and subsidiaries (see note 31 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 65 to 82).

Members of the Board of Directors control a voting share of 3.25% of Air Berlin PLC (2015: 3.13%).

The Company had the following transactions with one major shareholder and respective related parties during the years ending 31 December:

EURk	2016	2015
Etihad Airways PJSC		
Other income	403	633
Advances received	0	20,000
Other receivables	1,036	633
EA Partners I B.V.		
Long-term financing liabilities including interest accrued	119,941	120,061
Deposit	8,271	7,182
Interest expense	13,982	3,330
EA Partners II B.V.		
Long-term financing liabilities including interest accrued	93,481	0
Deposit	4,738	0
Interest expense	6,122	0
Stichting EA Partners I		
Long-term loans receivable including interest	2,214	2,047
Stichting EA Partners II		
Long-term loans receivable including interest	2,081	0

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

EURk	2016	2015
Air Berlin PLC & Co. Luftverkehrs KG		
Revenues	40,566	21,600
Loans given	333,865	122,383
Interest income	24,236	9,484
Interest expense	7,805	0
Other operating expenses	1,228	1,733
Receivables from subsidiaries	420,867	164,866
Payables to subsidiaries	252,503	142,723
Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH		
Revenues	19	24
Receivables from subsidiaries	0	47
Payables to subsidiaries	1,243	1,310
airberlin technik GmbH		
Revenues	625	291
Expense from profit and loss transfer agreement	27,073	26,162
Receivables from subsidiaries	599	61
Payables to subsidiaries	27,073	66,771
Leisure Cargo GmbH		
Revenues	76	26
Receivables from subsidiaries	74	5
Payables to subsidiaries	2	1
Air Berlin 1. – 9. LeaseLux Sàrl		
Revenues	6	105
Receivables from subsidiaries	1,705	1,711
Payables to subsidiaries	2,494	8,535

EURk	2016	2015
Air Berlin Finance B.V.		
Revenues	**99**	54
Expenses from convertible bonds	**369**	332
Interest expense on convertible bond	**34,443**	32,924
Payables to subsidiaries	**148,162**	165,388
Air Berlin Holding Ltd.		
Receivables from subsidiaries	**5**	5,485
Payables to subsidiaries	**0**	46,654
Air Berlin Fünfte Flugzeug GmbH		
Revenues	**0**	1
Receivables from subsidiaries	**0**	242
Air Berlin Sechste Flugzeug GmbH		
Revenues	**0**	4
Receivables from subsidiaries	**0**	8
Air Berlin Siebte Flugzeug GmbH		
Revenues	**0**	4
Receivables from subsidiaries	**0**	7
Air Berlin Dritte Flugzeugvermietungs GmbH		
Revenues	**0**	4
Receivables from subsidiaries	**75**	75
Air Berlin Finance GmbH		
Revenues	**0**	2
Receivables from subsidiaries	**0**	39
AB Finance II GmbH (former: dba)		
Revenues	**0**	50
Receivables from subsidiaries	**178**	144
Belair Airlines AG		
Dividends received	**526**	464
Revenues	**3,582**	3,821
Receivables from subsidiaries	**117**	433
Payables to subsidiaries	**676**	0
CHS Holding Service GmbH		
Revenues	**0**	12
Air Berlin PLC & Co. Service Center KG		
Revenues	**0**	67
Receivables from subsidiaries	**0**	17
Niki Luftfahrt GmbH		
Revenues	**3,210**	7,178
Interest expenses	**0**	52
Receivables from subsidiaries	**1,510**	1,340
Payables to subsidiaries	**764**	1,470

N) EMPLOYEES

The Company employed one Executive Director (2015: one Executive Director). The Directors remuneration is included in note 23 to the consolidated financial statements above as well as in the Directors' Remuneration Report on pages 65 to 82.

Additionally the company employs the Management Board (note 23). Furthermore the company employed 9 non-director employees in 2016 (2015: 9).

35. Consolidated entities

The following subsidiaries are included in the consolidated financial statements:

Subsidiaries[1]	Country of incorporation	Registered office	**2016**	2015
AB Dritte Flugzeugvermietungs GmbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	**0**	0
Air Berlin Finance B.V. [2]	Netherlands	De Entree 99-197, 1101 HE Amsterdam Zuisdoost	**0**	0
Air Berlin Finance GmbH [2] (merged to Air Berlin PLC)	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Air Berlin Finance II GmbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	**0**	0
Air Berlin PLC & Co. Luftverkehrs KG	Germany	Saatwinkler Damm 42-43, 13627 Berlin	**0**	0
Air Berlin Ltd. & Co. Service Center KG (merged to CHS Holding & Services GmbH)	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
airberlin technik GmbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	**0**	0
airberlin technik Slovakia s.r.o.	Slovakia	Letisko Košice 0, Košice-Barca 04 175, Slowakische Republik	**0**	0
Air Berlin Holding Limited	United Kingdom	c/o Browne Jacobson LLP, 6 Bevis Marks, Bury court, London EC3A 7BA	**0**	0
Air Berlin 1. LeaseLux Sàrl (merged to Air Berlin 8. LeaseLux Sàrl)	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	0	0
Air Berlin 2. LeaseLux Sàrl (merged to Air Berlin 8. LeaseLux Sàrl)	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	0	0
Air Berlin 3. LeaseLux Sàrl	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	**0**	0
Air Berlin 4. LeaseLux Sàrl (merged to Air Berlin PLC & Co. Luftverkehrs KG)	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	0	0
Air Berlin 5. LeaseLux Sàrl	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	**0**	0
Air Berlin 6. LeaseLux Sàrl	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	**0**	0
Air Berlin 7. LeaseLux Sàrl	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	**0**	0
Air Berlin 8. LeaseLux Sàrl	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	**0**	0
Air Berlin 9. LeaseLux Sàrl (merged to Air Berlin 8. LeaseLux Sàrl)	Luxembourg	69, Boulevard de la Pétrusse, L-2320 Luxemburg	0	0
Air Berlin Fünfte Flugzeug GmbH (merged to Air Berlin Finance II GmbH)	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Air Berlin Sechste Flugzeug GmbH (merged to Air Berlin Finance II GmbH)	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Air Berlin Siebte Flugzeug GmbH (merged to Air Berlin Finance II GmbH)	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Air Berlin Americas Inc.	USA	Biscayne Boulevard. Ste 401 20803, USA-FL-33180	**0**	0
Belair Airlines AG	Switzerland	Sägereistrasse 27, 8152 Glattbrugg	**0**	0
Air Berlin Bermuda Co. Ltd.	Bermuda	c/o Conyers Dill & Pearman Limited, Clarendon House, 2 Church Street HM 11, Bermuda	**0**	0

Subsidiaries[1]	Country of incorporation	Registered office	2016	2015
CHS Switzerland AG	Switzerland	c/o KPMG Legal, Badenerstrasse 172, 8004 Zürich	0	0
CHS Holding & Services GmbH	Germany	Peter-Müller-Str. 20, 40468 Düsseldorf	0	0
ELB - Luftverkehrs-Beteiligungs GmbH (merged to ELG - Luftverkehrsholding GmbH)	Austria	Seilergasse 16, 1010 Wien, Österreich	0	0
ELB - Luftverkehrs-Beteiligungs GmbH & Co. KG (merged to ELG - Luftverkehrsholding GmbH)	Austria	Seilergasse 16, 1010 Wien, Österreich	0	0
ELG - Luftverkehrsholding GmbH (merged to Gemuris Beteiligungsverwaltungs GmbH)	Austria	Seilergasse 16, 1010 Wien, Österreich	0	0
Gehuba Beteiligungs-Verwaltungs GmbH	Austria	Office Park I, Top B03, A-1300 Wien-Flughafen	0	0
Gemuris Beteiligungsverwaltungs GmbH	Austria	Seilergasse 16, 1010 Wien, Österreich	0	0
JFK Stiftung	Switzerland	c/o Advokaturbüro Niklaus Litscher, Zugerstrasse 2, CH-8820 Wädenswil	0	0
Leisure Cargo GmbH	Germany	Flughafen Düsseldorf DUS-AIR-Cargo-Center, R.3554, 40474 Düsseldorf	0	0
NIKI Luftfahrt GmbH	Austria	Office Park I, Top B03 A-1300 Wien-Flughafen	0	0
NIKI Luftfahrt Limited	United Kingdom	c/o Browne Jacobson LLP, 6 Bevis Marks, Bury court, London EC3A 7BA	0	0
NL AB Beteiligungs GmbH	Austria	Office Park I, Top B03 A-1300 Wien-Flughafen	0	0
Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH	Germany	Saatwinkler Damm 42-43, 13627 Berlin	0	0
Privatstiftung zur Förderung des europäischen Luftverkehrs – ELS[3]	Austria	Seilergasse 16, 1010 Wien, Österreich	0	0
Air Berlin Employee Share Trust	United Kingdom	Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG	0	0

1 The list contains all subsidiaries of Air Berlin PLC.

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

3 In liquidation

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

Furthermore the group holds the following at equity investments:

At equity investments	Country of incorporation	Shares	**2016**	2015
Airberlin holidays GmbH (primary: Binoli GmbH)	Germany	49.0%	0	0
THBG BBI GmbH	Germany	35.0%	0	0
IHY IZMIR HAVAYOLLARI A.S.[2]	Turkey	29.5%	0	0
AuSoCon Berlin Call Center GmbH[1]	Germany	20.0%	0	0
Topbonus Ltd.	United Kingdom	30.0%	0	0
Flughafen Düsseldorf Tanklager GmbH	Germany	20.0%	0	0

1 in liquidation.

2 held for sale

OTHER INFORMATION

GLOSSARY

ANCILLARY REVENUE
Supplementary revenue beyond ticket sales.

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

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

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

CASK
Costs per available seat kilometre; Performance measure of the specific operating costs (see „ASK“).

DRY LEASE
Leasing of an aircraft without personnel.

EBIT
Is defined as earnings before net financing costs and taxes.

EBITDA
Is defined as earnings before net financing costs, taxes, depreciation and amortization.

EBITDAR
Is defined as earnings before net financing costs, taxes, depreciation, amortisation and expenses for operating leases for aircraft and equipment.

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

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

IATA
International Air Transport Association.

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

NET DEBT
The net of interest bearing liabilities minus cash and cash equivalents.

PAX
Number of passengers.

RASK
Revenue per available seat kilometer; Performance measure of the specific revenues (see „ASK“).

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

LOAD FACTOR
RPK in per cent of ASK.

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

WET LEASE
Leasing an aircraft including personnel.

YIELD
Average revenues per respective output unit. The latter may refer to the single passenger (e.g. related to total sales), or to ASK (related to total sales, revenue through ticket sales, or revenue through ticket sales incl. ancillary revenue (e.g. through onboard revenues)).

YIELD MANAGEMENT
Price management system to increase average earnings.

IMPRINT

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PHOTOS MR WINKELMANN

Jens Oellermann/airberlin

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COMPANY CALENDAR

2017

ANNUAL GENERAL MEETING

14 June 2017	Annual General Meeting (AGM) Air Berlin PLC, London Heathrow

TRAFFIC FIGURES

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7 June 2017	Traffic figures May 2017
6 July 2017	Traffic figures June 2017
10 August 2017	Traffic figures July 2017
7 September 2017	Traffic figures August 2017
5 October 2017	Traffic figures September 2017
9 November 2017	Traffic figures October 2017
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