



**Air Berlin PLC | 11 June 2014 | db Access German Austrian Swiss Conference**



# Executive summary (1)

## Key highlights 2013

### → ***2013: a challenging year for airberlin***

- Operational loss of 231.9 million euros
- Group revenue down in line with capacity cuts

### → ***Turbine has delivered planned contribution***

- However not sufficient to counter difficult market conditions and headwinds
- Program continues, full effect to become effective 2014

### → ***Etihad Airways to further support airberlin and help the business restructure and return to sustainable profitability***

- Restructuring program is running

## Executive summary (2)

### Key highlights Q1 2014

- ***Turbine shows further improvement***
  - Turbine turnaround program clearly reduced costs
  - Costs per available seat kilometer (CASK) reduced by more than 8%
- ***Earnings (EBIT) slightly improved***, turnover slightly lower due to the Easter business falling in the second quarter
- ***Productivity increase***
  - Wider flight selection and a smaller fleet increased productivity
- ***Partnerships continue to show very favorable developments***

## Executive summary (3)

### Highlights Q2 2014

- ➔ ***Recapitalisation of Air Berlin PLC and injection of substantial quasi-equity and liquidity to form the basis for a successful turnaround***
  - EUR 300m Perpetual PIK Convertible Bond in 3 tranches of EUR 100m in Q2, Q3 and Q4 2014
  - Extension of the existing shareholder loan from Etihad Airways due in 2016 until 2021
  - EUR 252m Senior Bond and exchange offer to 2014 and 2015 maturities
- ➔ ***Organisational change and management capacity enhancement***
  - ➔ Addition of CRO role on management board level and engagement with top-tier consulting firms
  - ➔ Introduction of new revenue management system for further efficiency improvements

# Agenda

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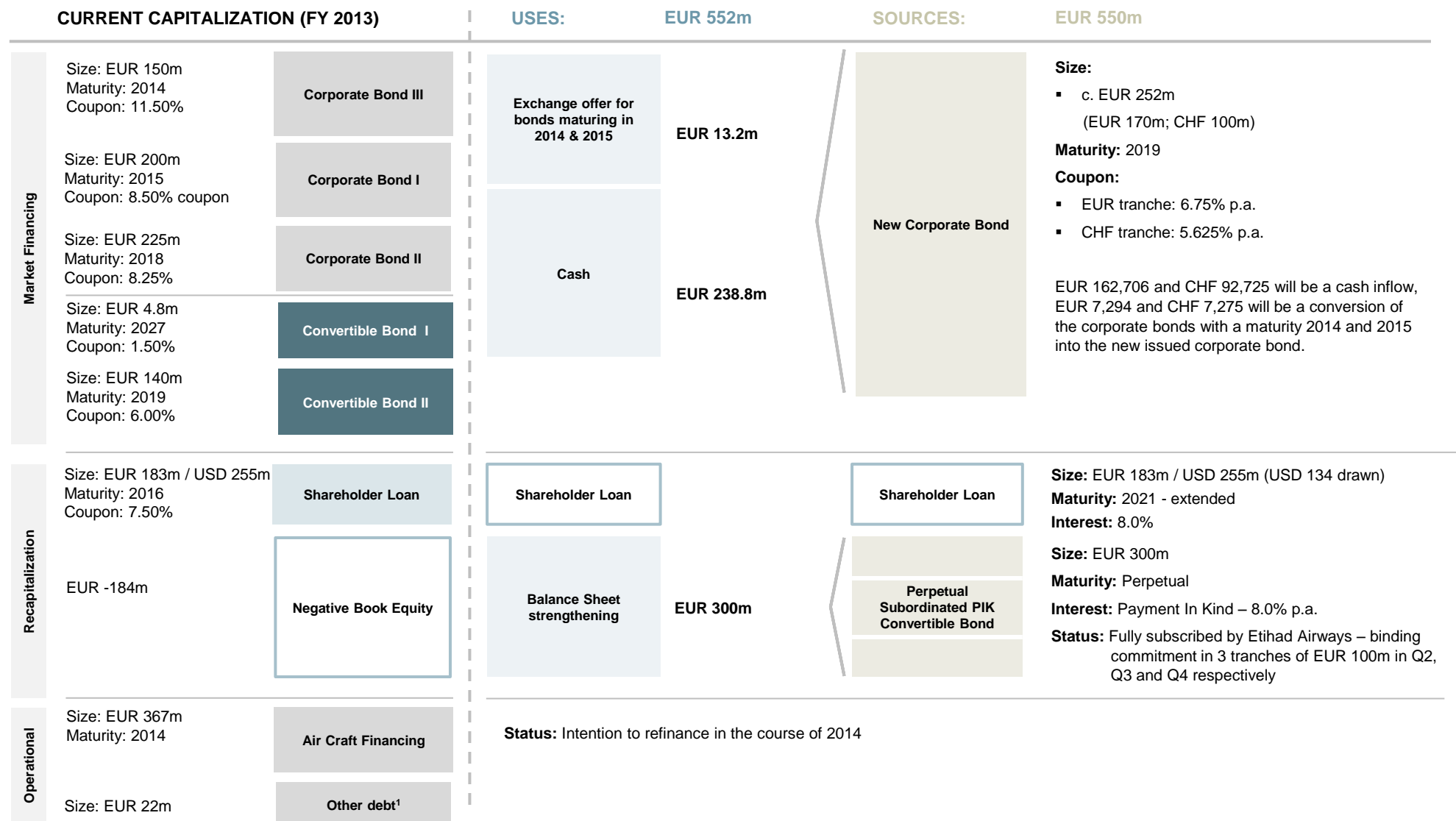
## A. Transaction details

# Recapitalization of Air Berlin PLC

## Financing concept

- ➔ To facilitate airberlin's restructuring, Air Berlin PLC has recapitalized via
  - a quasi-equity injection in the form of a EUR 300m Perpetual Subordinated PIK Convertible Bond fully subscribed by Etihad Airways to be funded in 3 tranches of EUR 100m in Q2, Q3 and Q4 2014 respectively
  - an extension of the existing shareholder loan from Etihad Airways due in 2016 until 2021
  - minimum EUR 250m equivalent Senior Bond issued via Anoa Capital, Close Brothers Seydler Bank and quirin bank
- ➔ Simultaneously, a tender exchange offer was launched for bonds maturing in 2014 and 2015 for a volume of c. EUR 100m
- ➔ These measures result in materially improved leverage metrics and a positive equity
  - **Reduction in financing** costs to feed into earnings improvements immediately
  - **Covenants package** facilitating the realization of the turnaround strategy without compromising bondholder interest

# Sources and uses of funds

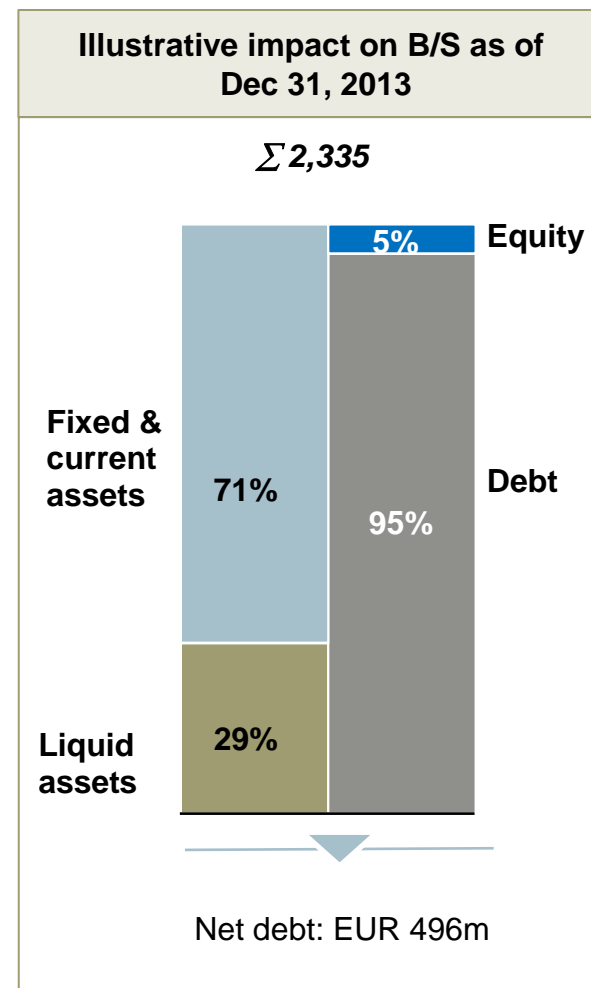
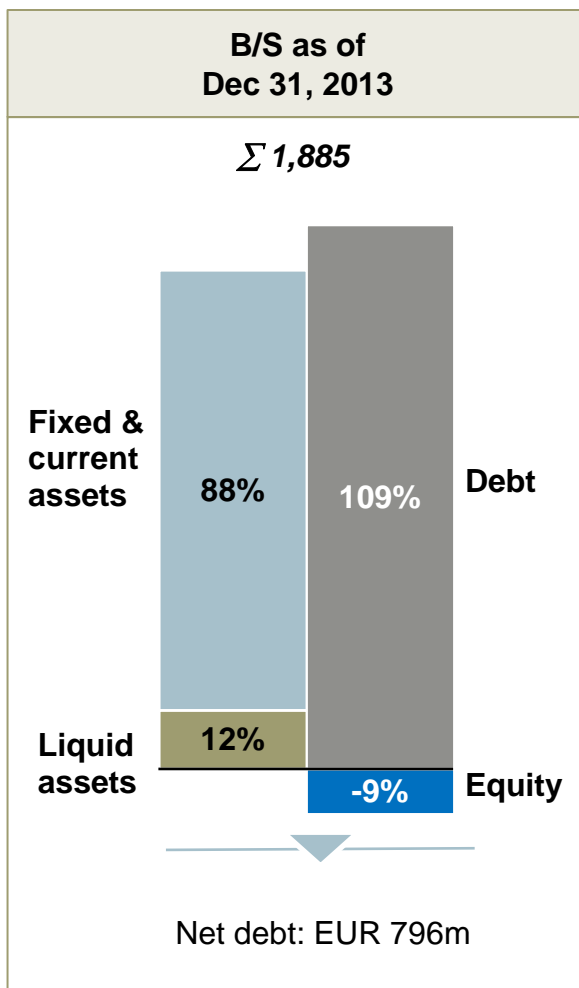
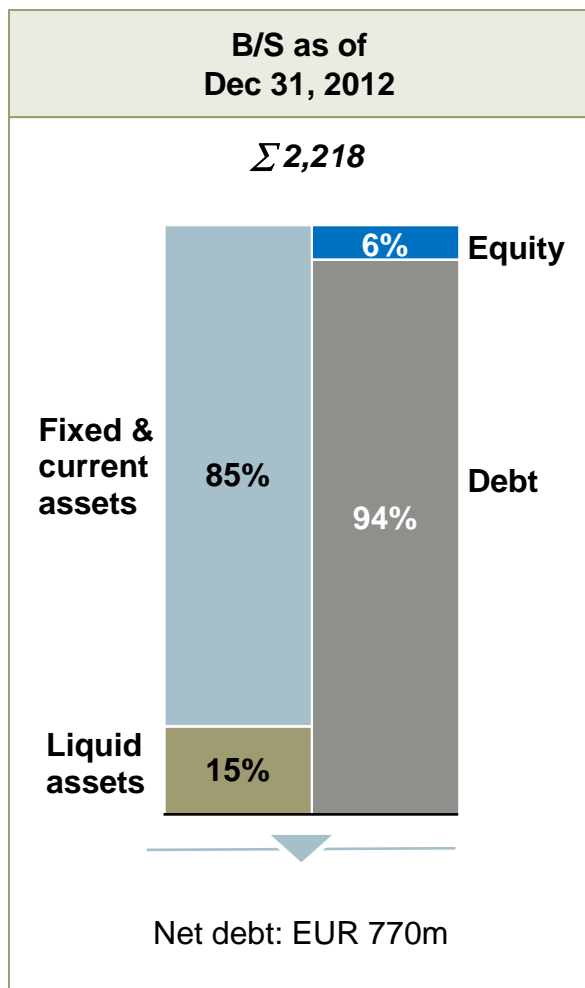


Source: Company information.  
(1) Non-aircraft financing finance lease liabilities, bank overdrafts.



# Balance sheet structure – illustrative impact of recapitalization on B/S as of Dec 31, 2013

[EUR m]



# EUR 300 million 8% perpetual subordinated cumulative convertible guaranteed bonds

## Simplified term sheet - Perpetual PIK Convertible Bond

<b>Issuer</b>	→ Air Berlin Finance B.V.
<b>Guarantor</b>	→ Air Berlin PLC
<b>Size</b>	<ul style="list-style-type: none"> <li>→ EUR 300m fully subscribed by Etihad Airways P.J.S.C.</li> <li>→ Funded in 3 tranches of EUR 100m on or before 20 May 2014, 31 August 2014, 30 November 2014 respectively</li> <li>→ Unconditional</li> </ul>
<b>Interest</b>	<ul style="list-style-type: none"> <li>→ Payment in Kind (at the option of the Issuer)</li> <li>→ Interest: fixed rate, 8.0% p.a.</li> </ul>
<b>Accounting treatment</b>	→ KPMG confirmed that the Bonds will be treated as equity for Air Berlin accounting purposes
<b>Maturity</b>	→ Perpetual, i.e. they have not fixed maturity date
<b>Denomination</b>	→ EUR 100,000
<b>Conversion price</b>	→ EUR 1.79
<b>Subordination</b>	<ul style="list-style-type: none"> <li>→ Subordinated to all other indebtedness of the Issuer</li> <li>→ Senior only to the Issuer's share capital</li> </ul>

# Conversion and redemption is conditioned upon and subject to airberlin remaining an EU owned and controlled airline

## Terms & conditions of the perpetual PIK convertible bond

### → Conversion Rights

The Bonds can be converted into ordinary shares as determined by the Issuer. Conversion is subject to the limitations on ownership, meaning that at all times the majority of the shares must be owned and controlled by EU citizens.

### → Redemption and purchase

airberlin has the option to redeem the bonds at year 5 (subject to ownership restrictions) and 10, which would result in a refinancing of the bond or a forced sale of any shares redeemed. Following redemption airberlin will remain a European controlled airline.

## **B.** airberlin at a glance

# Organisational change and management capacity enhancement

## Management capacity enhancement

### Board level – Strategic decision making

الإتقاد  
**ETIHAD**  
AIRWAYS  
representatives

Workers council  
representatives

Independent  
Directors

### Executive level – Business development & strategy implementation



**Ulf Hüttmeyer**  
CFO

- CFO since 2006
- 8 years of industry experience



**Wolfgang Prock-Schauer**  
CEO

- CEO since 2013
- 33 years of industry experience



**Götz Ahmelmann**  
CCO

- To join from Lufthansa on 1st July 2014
- 22 years of industry experience

### Planning & Project Level – Change management & strategy execution



**John Shepley**  
Chief Planning Strategist

- To join from ETIHAD AIRWAYS
- 27 years of industry experience



**Duncan Naysmith**  
Interim VP Finance

- To join from ETIHAD AIRWAYS
- 10 years of industry experience



**Marco Ciomperlik**  
CRO

- Since 2010 CMO at airberlin
- 8 years of industry experience

## External expertise

### strategy&

Formerly Booz & Company

- strategy& (formerly Booz & Co.) to initiate three year recurring strategic review cycle

### Sabre | Airline Solutions.

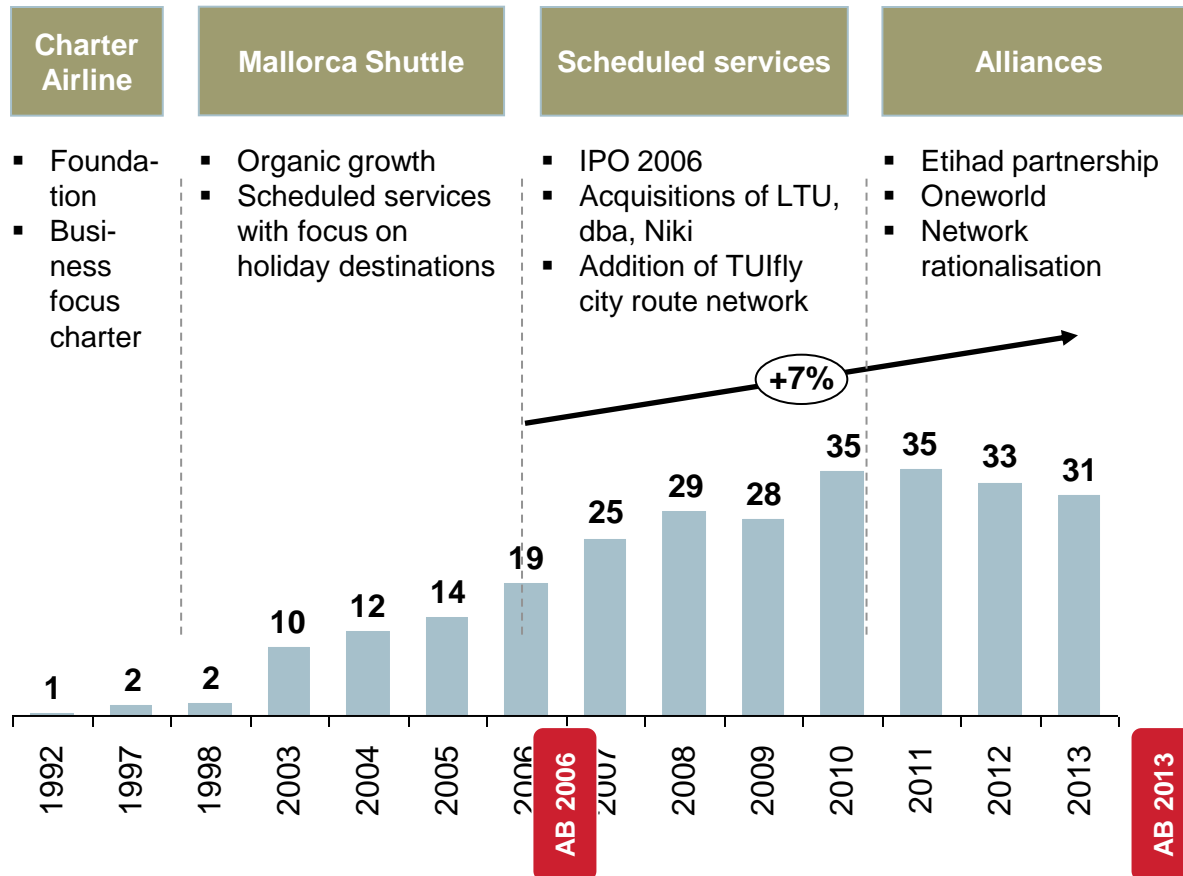
- Sabre Airline Solutions to provide in-depth advise on cost structure improvements and efficiency enhancement opportunities
- >65 clients worldwide from all global alliances
- >100 subject matter experts with >1,000 years of combined airline experience

### الإتقاد **ETIHAD** AIRWAYS

- Migration to highly efficient and proven revenue management system guided by Etihad Airways to increase visibility and transparency of operations
- More efficient communication and decision making between airberlin management and Etihad Airways as the main shareholder

# airberlin has grown from a small charter operator to be the 6th largest airline in Europe with 31 million pax in 2013

## Air Passenger Growth (Pax in M)



### AB 2006

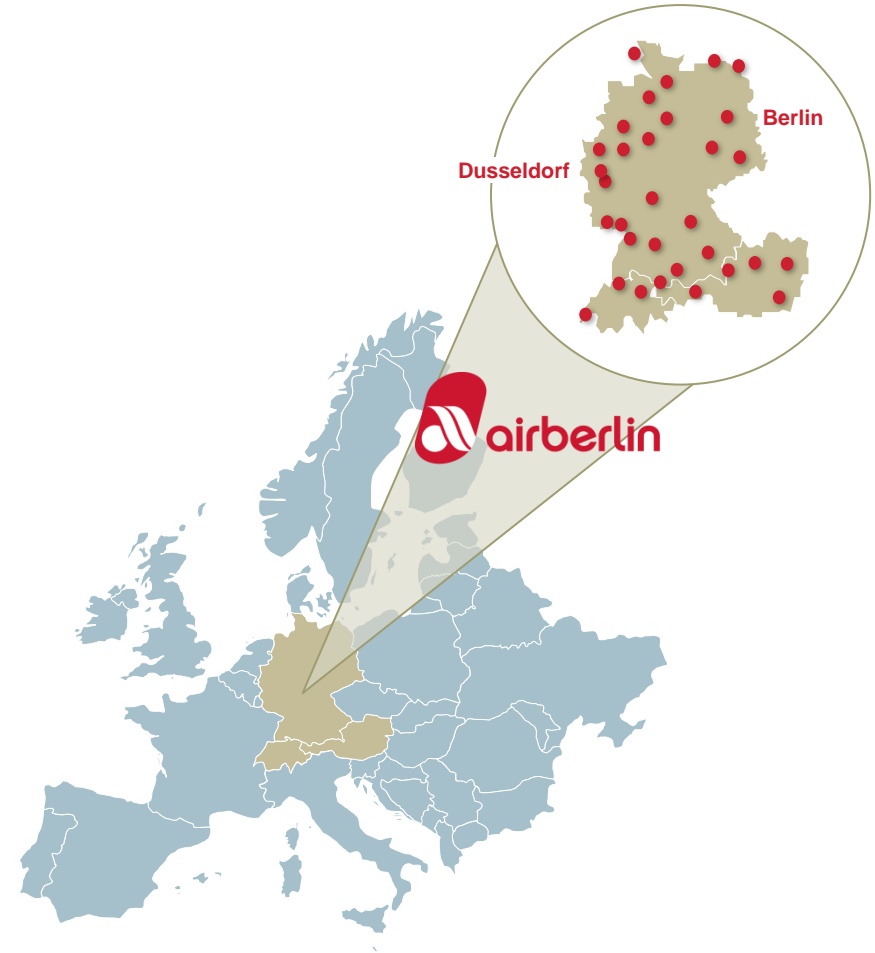
- ➔ Touristic charter to Spain and Mediterranean
- ➔ Majority of sales to tour operators
- ➔ Single class narrow body fleet

### AB 2013

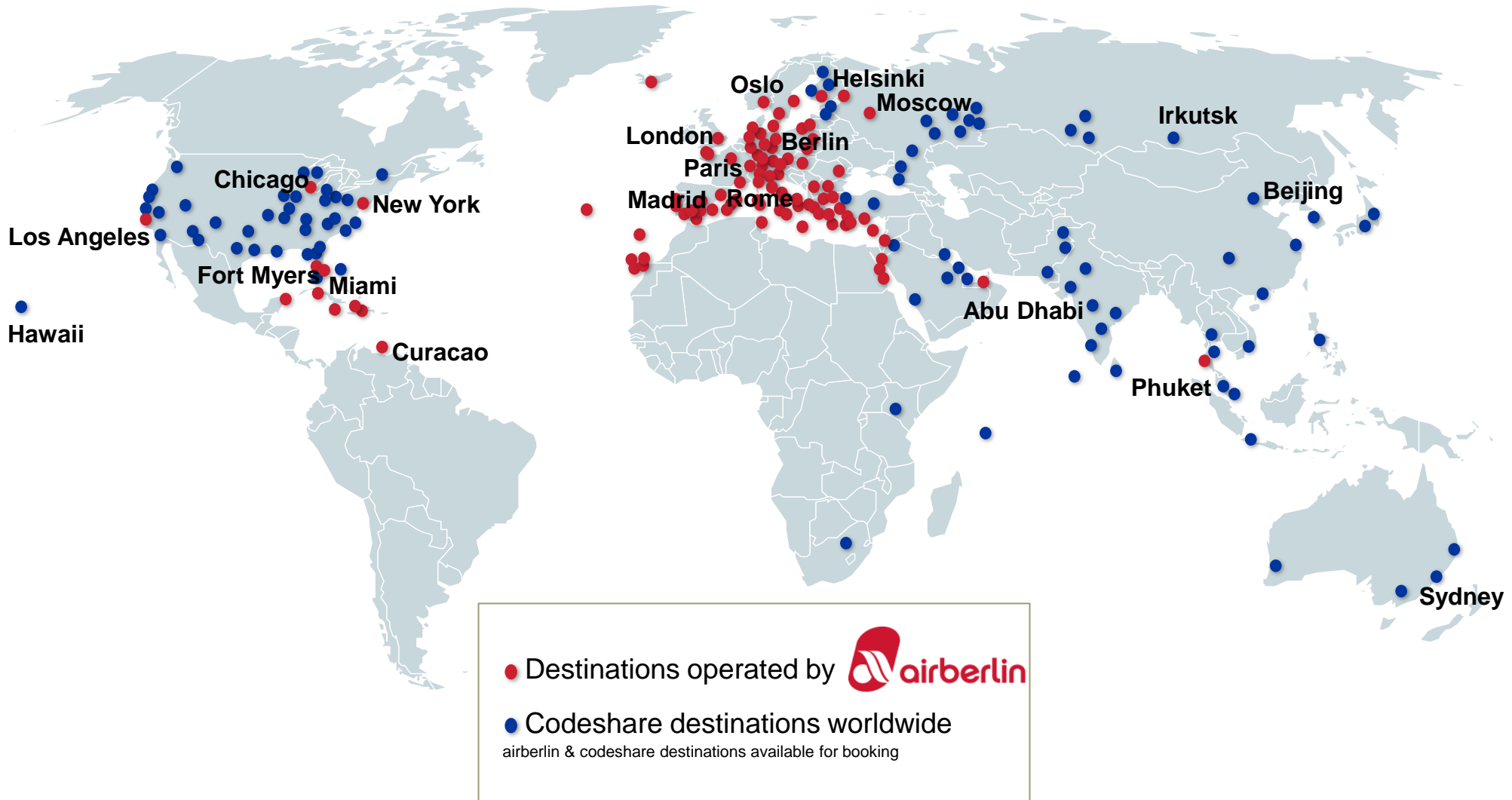
- ➔ **6th largest carrier (in terms of carried passengers)** in Europe with mix of touristic, European and long haul destinations
- ➔ Serves range of passengers from business to leisure
- ➔ Product enhancement with wide body, narrow body and regional a/c
- ➔ More seats sold through GDS and direct than tour operators

# airberlin today

- ✈ No. 1  
in Berlin, Dusseldorf and Palma de Mallorca
- ✈ No. 2  
in core market Germany/Austria/Switzerland (DACH)
- ✈ Fourth time in a row over 30 million guests
- ✈ Full-service network carrier  
with focus on business & leisure travelers
- ✈ Global airline partnerships  
**oneworld**<sup>®</sup> member | Etihad equity alliance



# airberlin's worldwide comprehensive network reach (including codeshare)

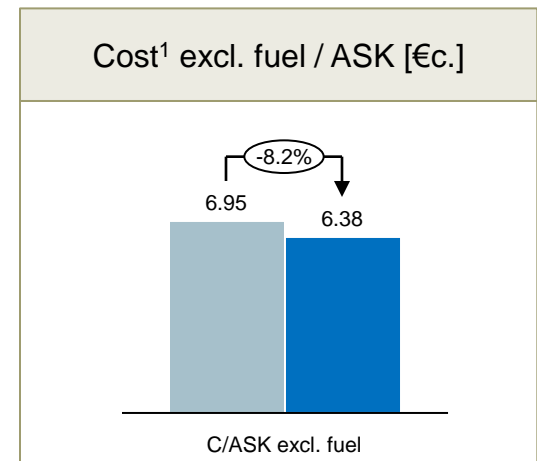
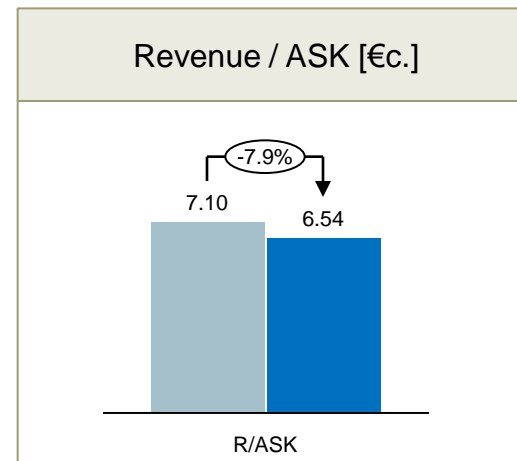
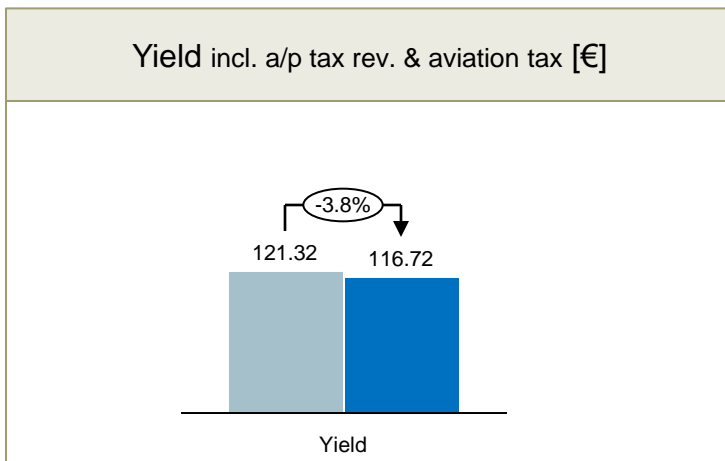
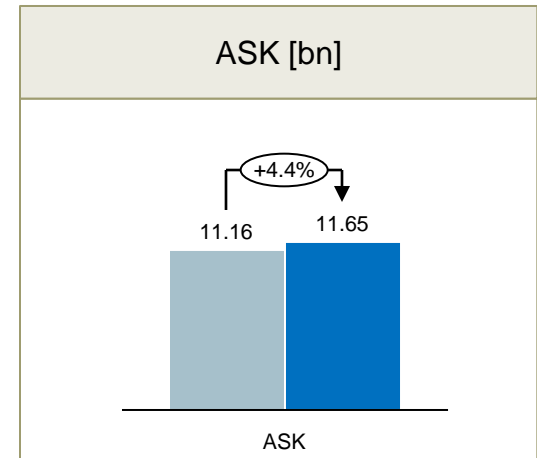
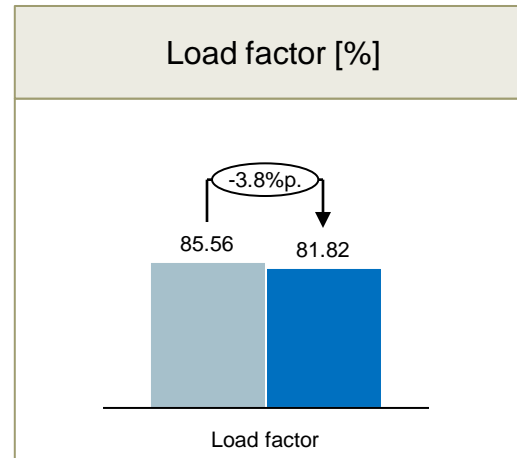
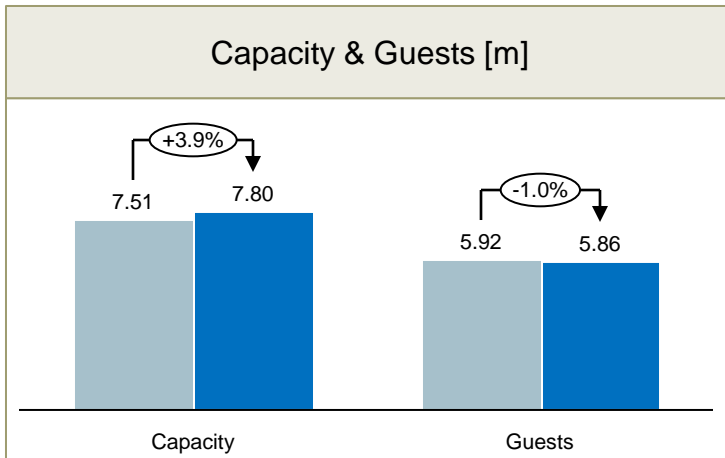




## C. Q1 2014 results

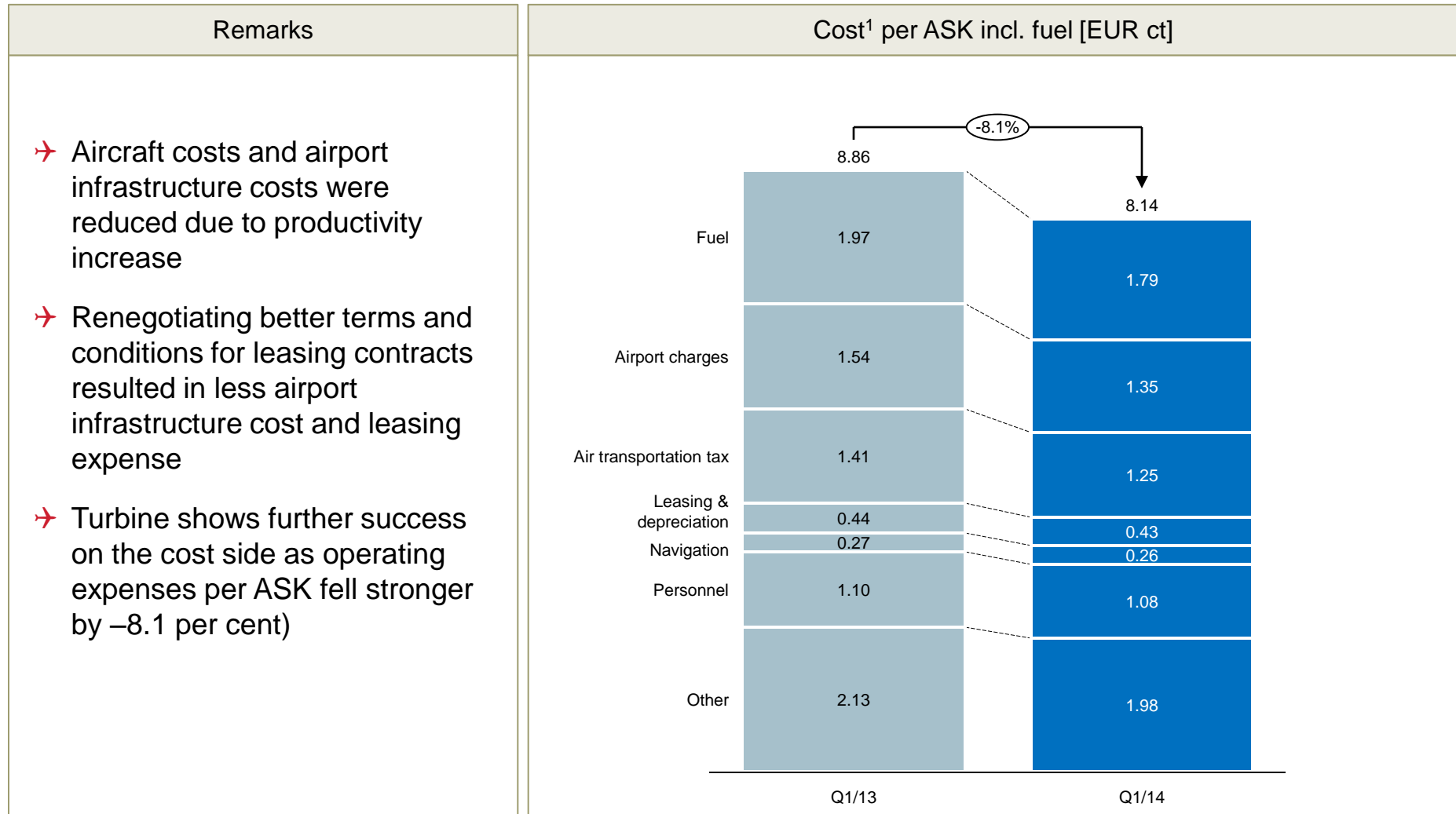
# 1<sup>st</sup> quarter 2014 operational development vs. 1<sup>st</sup> quarter 2013

■ Q1 2013 ■ Q1 2014 [€m]



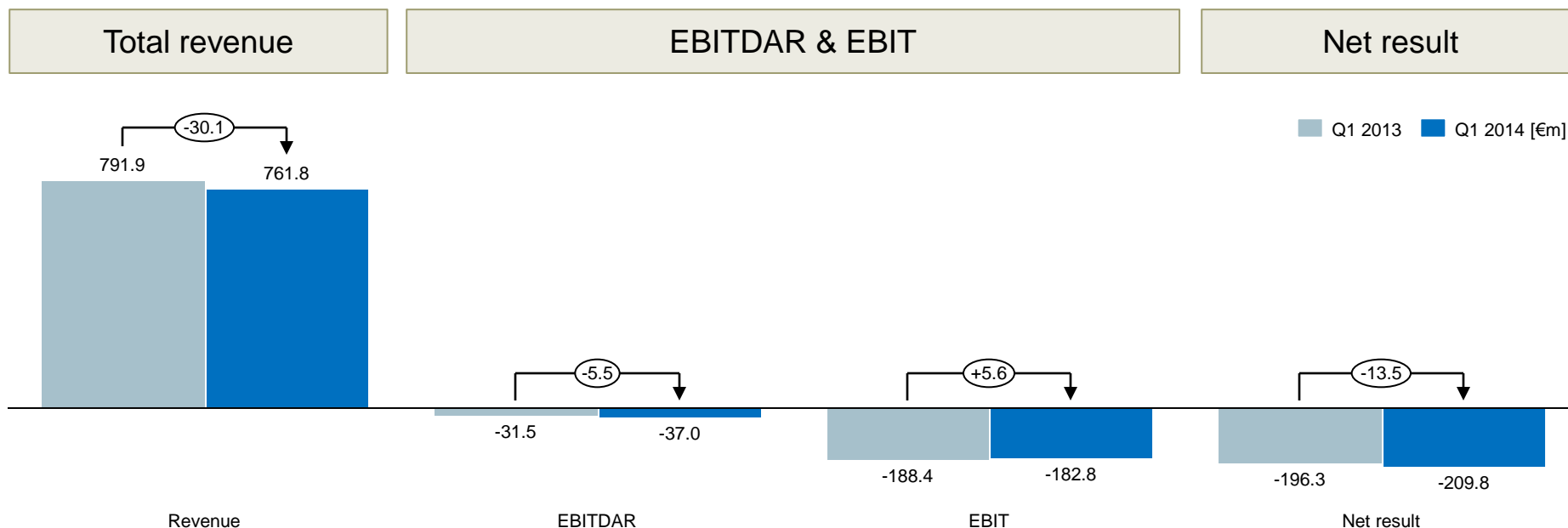
(1) Cost on EBIT level excluding other operating result

# Cost/ASK development – Turbine shows further success



(1) Cost on EBIT level excluding other operating result

# 1<sup>st</sup> quarter 2014 financial performance vs. 1<sup>st</sup> quarter 2013



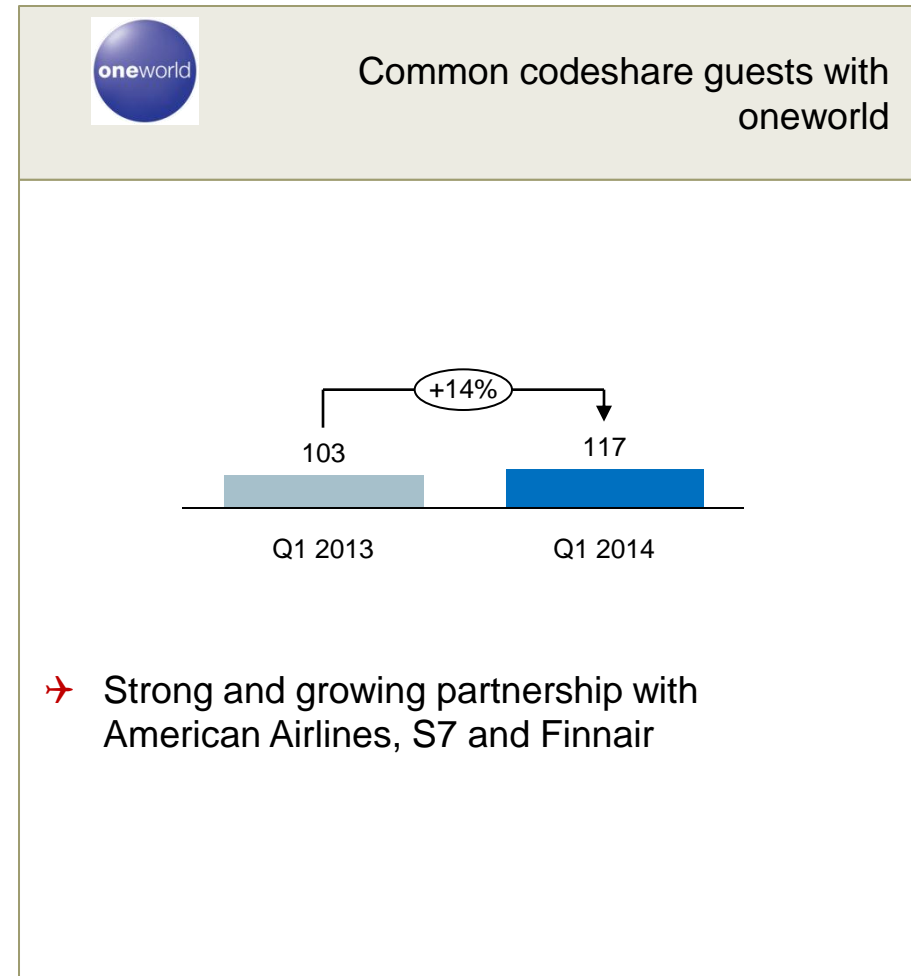
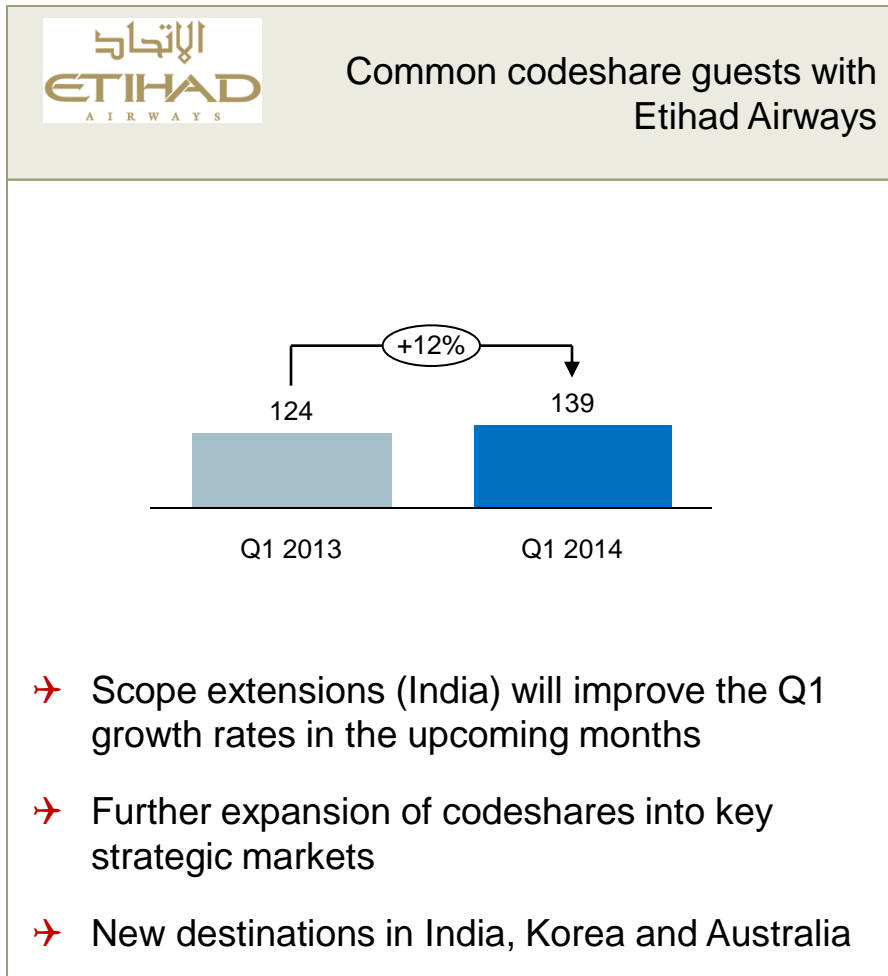
Due to the Easter travel not starting until April, total sales for the first quarter decreased by 3.8%.

Some of the revenue deviation was offset by better cost performance but still EBITDAR is below previous year quarter's result. EBIT performance is slightly better due to less cost of aircraft ownership.

With financial result in line with expectations, net result further reduced by EUR 13m compared the first quarter in 2013 due to lower (non-cash) tax credits.

# Strategic partnership with Etihad Airways and codeshare performance with oneworld® are well on track

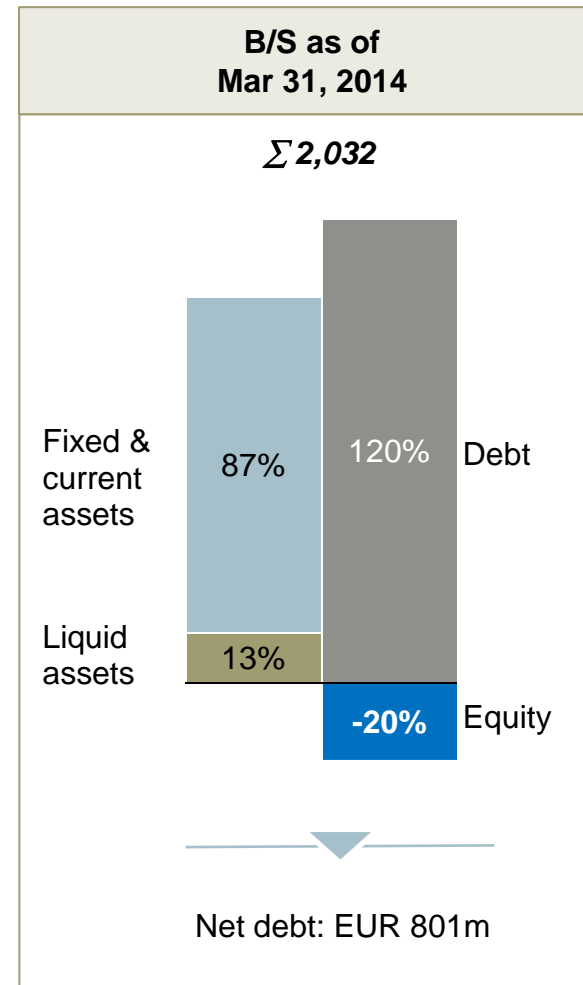
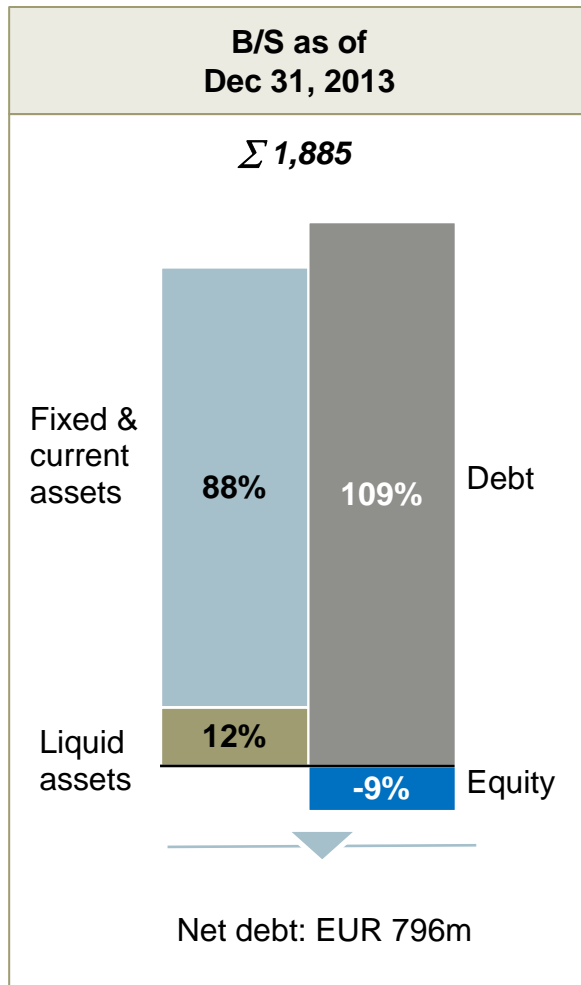
Development of codeshare guests by alliance [in thds.]



Source: AB Partnership Reporting

# Balance sheet structure prior to the recapitalisation

[EUR m]



# Looking ahead, airberlin will need to consider external challenges in any restructuring model

## External Challenges

### Competition from LCCs

- LCCs in Western Europe grew at 8% CAGR compared to 2%<sup>1</sup> in Germany
- Cost conscious Corporates are increasingly using LCCs
- Travellers are more accepting of basic product
- LCCs with lower CASK than airberlin (e.g. Ryanair and easyjet) are watching the German market with interest
- LCCs have large aircraft orders to deploy

### Competition from Rail

- Railways may enhance HSR on 400-600km routes as coaches increase competition on domestic long-distance
- EU 2030 rail plan would complete the missing links between Paris, Frankfurt, Cologne/Frankfurt and Zurich and provide even greater competition for air travel

### Airport Capacity and Operations

- DUS, MUC and FRA are congested during peaks
- Limitations on airport expansion in Germany
- Delay of new airport in Berlin
- Ryanair and easyjet are planning to expand into ports such as Cologne and Hamburg

<sup>1</sup>Excludes airberlin and Germanwings. LCC grew at 3% CAGR in Germany including airberlin and Germanwings

## D. Back up

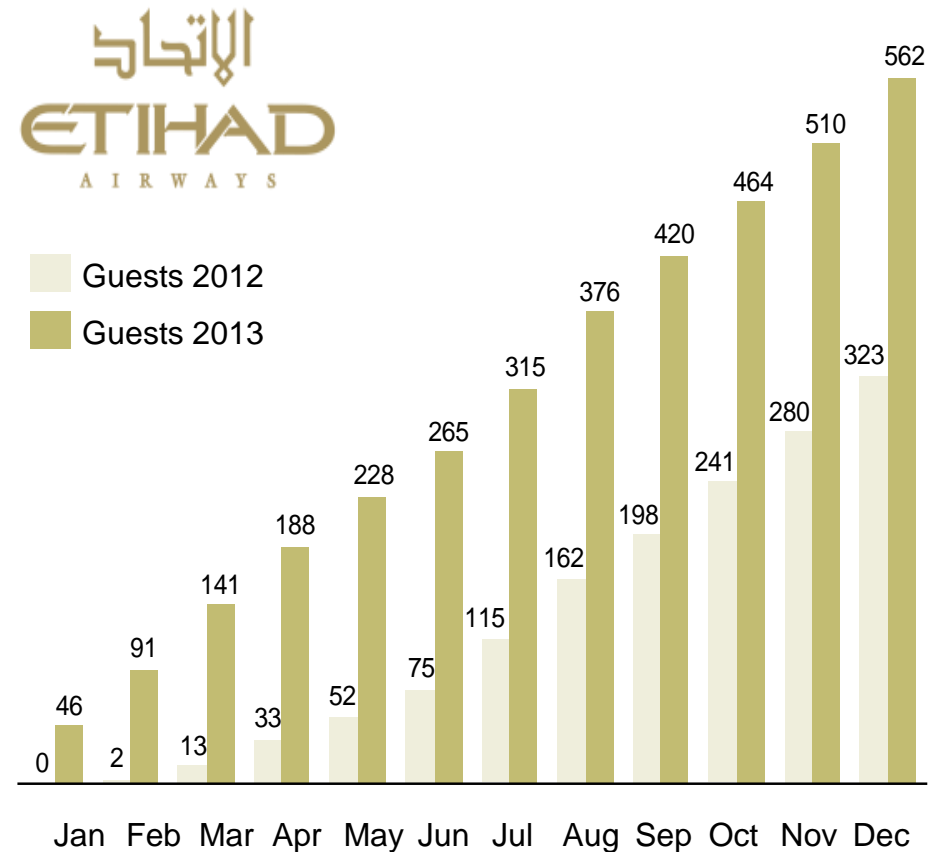


# Strategic partnership with Etihad Airways has shown strong momentum in 2013 – EUR 200 million in combined partnership revenue

## Partnership performance Etihad Airways

- ➔ Etihad Airways is codeshare partner No.1 for airberlin
- ➔ Portfolio of almost 100 codeshare routes
- ➔ Combined partnership revenues of EUR 200 million (increase of 100% vs 2012)
- ➔ Latest extension: Codeshares to India
- ➔ Due to hub development, codeshare opportunities will grow further (e.g. Hong Kong, Korea)
- ➔ Codeshare agreements implemented with Equity Alliance partners Air Seychelles, Air Serbia and Virgin Australia

## Common Guests development 2013 [‘000]



# oneworld presents further opportunities for growth by providing airberlin with access to new destinations and additional passengers

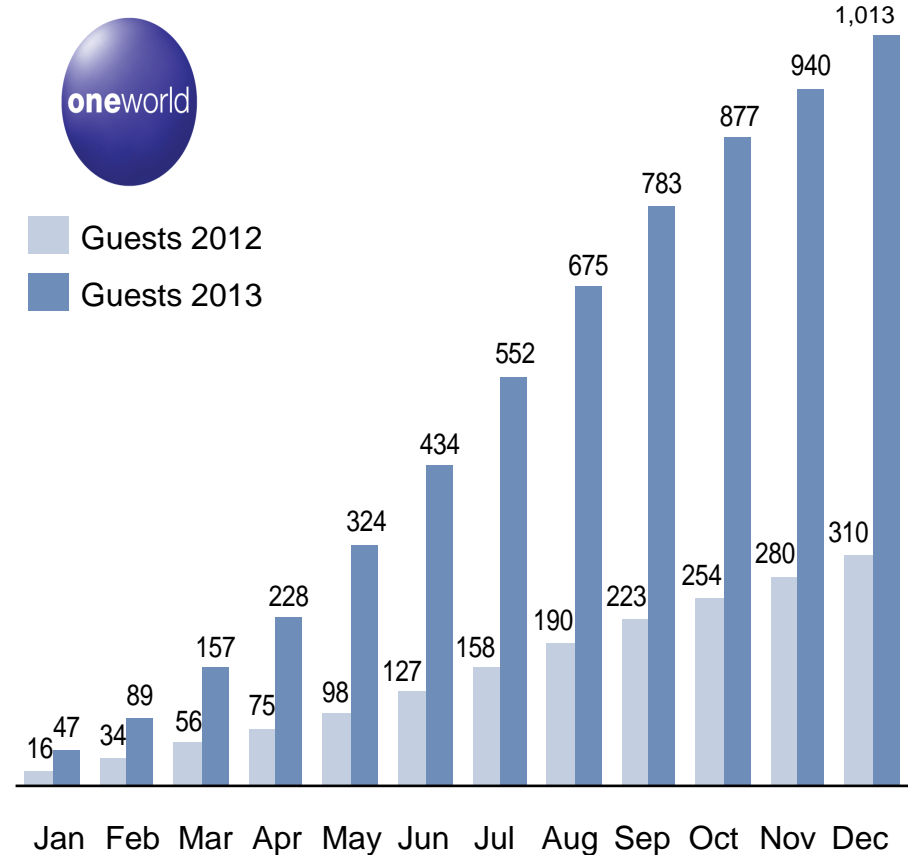
## Partnership performance oneworld

- ➔ Extended codeshare with oneworld partners predominately with American Airlines and S7 Airlines
- ➔ More than 1 million common guests in 2013
- ➔ Alliance of service-orientated quality airlines with highest quality and safety standards

### News:

- ➔ **American Airlines**
  - Merger between AA and US Airways offers great opportunities for airberlin to strengthen North Atlantic network
- ➔ **S7 Airlines**
  - New codeshare routes planned for summer 2014

## Common Guests development 2013 ['000]



# airberlin improvements and accelerated restructuring

## Turbine 2013/2014

## Deeper & more radical restructuring 2014/2015

Cumulative effect: EUR 400m

- ➔ Planned initiatives
  - Revenue management system
  - Increased synergies with Equity Alliance Partners
  - Intensified cooperation with partner airlines
  - Fleet optimisation

2014

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>➔ Personnel reduction                             <ul style="list-style-type: none"> <li>- ~600 FTE</li> </ul> </li> <li>➔ Network optimisation                             <ul style="list-style-type: none"> <li>- Focus on major city pairs</li> <li>- Strengthening frequencies</li> <li>- Flattening seasonality</li> </ul> </li> <li>➔ Sales &amp; Commercial                             <ul style="list-style-type: none"> <li>- Reorganisation distribution/sales</li> <li>- Strengthening distribution systems</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>➔ Comprehensive product improvement</li> <li>➔ Operations                             <ul style="list-style-type: none"> <li>- New stationing concept &amp; single type A/C relocation</li> <li>- Fuel savings (avg. 3.3 litres/100 RPK)</li> </ul> </li> <li>➔ Maintenance consolidation                             <ul style="list-style-type: none"> <li>- Line maintenance station consolidation</li> <li>- Base maintenance consolidation in MUC</li> </ul> </li> </ul> |
|--|--|
- 2013
- Outsourcing service centres
  - Supplier/lessor negotiations

- ➔ Fundamental review and accelerated, intensified, operational restructuring
- ➔ Strengthened Management Board with Chief Restructuring Officer (CRO)
- ➔ Support by external Management Consultants

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