Consolidated Financial Statements
31 December 2005, 2004 and 2003
(With Independent Auditor’s Report thereon)

Air Berlin PLC
London

KPMG

Independent Auditor’s Report

The Board of Directors

Air Berlin PLC, London

We have audited the accompanying consolidated balance sheets of Air Berlin PLC and subsidiaries (the Company) as of 31 December 2005, 2004 and 2003 and the related consolidated statements of income, consolidated statements of changes in equity, consolidated statements of cash flow and notes for the years then ended. These consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the financial position of Air Berlin PLC and subsidiaries as of 31 December 2005, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Berlin, 5 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Maas	Dr. Kronner
Wirtschaftsprüfer	Wirtschaftsprüfer

Air Berlin PLC, London

Consolidated Balance Sheets
as at 31 December 2005, 2004 and 2003

Assets	Note	31.12.2005 € 000	31.12.2004 € 000	31.12.2003 € 000
Non current assets				
Software licences and other rights	5	1,317	1,443	1,396
Aircraft and engines	6	712,133	706,412	761,977
Technical equipment and machinery	6	30,319	22,638	21,374
Office equipment	6	10,306	8,184	8,677
Investments in associates	7	660	984	579
Non current assets		754,735	739,661	794,003
Current assets				
Inventories		3,201	2,556	2,229
Trade receivables		26,708	20,821	12,444
Other current assets	8	79,888	28,300	19,933
Prepaid expenses		8,147	5,428	876
Investment securities		125	138	127
Cash and cash equivalents		189,051	87,552	45,000
Current assets		307,120	144,795	80,609
Total assets		1,061,855	884,456	874,612
Equity and liabilties				
Shareholders' equity				
Share capital	9	10,073	30	30
Limited partners' capital	9	0	41,300	41,000
Other capital reserves	9	217,056	55,551	0
Retained earnings and profit (loss) for the year		(29,779)	86,932	7,993
Fair value reserve		(127)	(114)	(118)
Equity attributable to equity holders of the parent		197,223	183,699	48,905
Minority Interest	10	0	0	142,042
Equity		197,223	183,699	190,947
Non-current liabilities				
Deferred tax liabilities	25	96,833	52,880	34,057
Liabilities due to bank from assignment of future lease payments	14	350,829	370,163	472,664
Interest-bearing liabilities	14	30,154	9,459	5,466
Non-current liabilities		477,816	432,502	512,187
Current liabilities				
Liabilities due to bank from assignment of future lease payments	14	99,893	47,514	54,275
Interest-bearing liabilities	14	17,477	2,156	250
Accrued taxes		662	267	2,302
Other provisions	12	1,048	586	0
Accrued liabilities	13	45,867	17,181	11,920
Trade payables		61,164	61,403	52,514
Other liabilities	16	15,372	27,666	22,050
Deferred income	17	14,003	9,501	7,964
Advanced payments		131,330	101,981	20,204
Current liabilities		386,816	268,255	171,479
Totel equity and liabilties		1,061,855	884,456	874,613

Air Berlin PLC, London

Consolidated Statements of Income
for the years ended 31 December 2005, 2004 and 2003

	Note	2005 € 000	2004 € 000	2003 € 000
Revenue	17	1,215,240	1,033,880	863,230
Other operating income	18	4,731	13,395	4,059
Expenses for materials and services	19	(864,145)	(705,270)	(588,103)
Personnel expenses	20	(116,903)	(100,825)	(90,091)
Depreciation and amortisation	5.6	(62,558)	(74,939)	(75,659)
Other operating expenses	21	(181,908)	(166,915)	(166,247)
Operating expenses		(1,225,514)	(1,047,949)	(920,100)
Result from operating activities		(5,543)	(674)	(52,811)
Financial expenses	22	(19,026)	(13,325)	(13,633)
Financial income		2,851	1,556	2,643
Foreign exchange gains, net	23	(49,192)	29,058	108,612
Net financing costs		(65,367)	17,289	97,622
Share of profit (loss) of associates	24	39	332	(53)
Profit (loss) before tax		(70,871)	16,947	44,758
Income tax expenses	25	(45,029)	(19,869)	(8,018)
Profit (loss) for the year		(115,900)	(2,922)	36,740
Attributable to:				
Equity holders of the parent		(115,900)	(2,922)	11,987
Minority interest	10	0	0	24,753
Profit (loss) for the year		(115,900)	(2,922)	36,740
Basic and diluted earnings per share in €	11	(11.59)	(0.29)	1.20

Air Berlin PLC, London

Consolidated Statements of Cash Flows
for the years ended 31 December 2005, 2004 and 2003

	Note	31.12.2005 € 000	31.12.2004 € 000	31.12.2003 € 000
Profit (loss) for the year		(115,900)	(2,922)	36,740
Adjustments to reconcile profit or loss to cash flows from operating activities:				
Depreciation and amortisation of non-current assets	5, 6	62,558	74,939	75,659
Impairment losses		0	250	0
Loss on disposal of tangible and intangible assets		5,367	1,161	24,367
(Increase) decrease in inventories		(645)	(327)	433
Increase in trade accounts receivable		(5,887)	(8,376)	(6,862)
Increase in other assets and prepaid expenses		(32,616)	(8,110)	(6,002)
Increase in deferred income taxes	25	43,954	18,822	7,546
Increase (decrease) in accrued liabilities and provisions		28,419	5,848	(3,531)
Increase in other current liabilities		36,198	58,756	26,966
Foreign exchange (gains) losses		59,685	(15,801)	(75,774)
Interest expense	22	19,026	13,325	13,633
Income tax expense	25	1,076	1,048	472
Share of (profit) loss of associates	24	(2)	(332)	53
Changes in fair value of derivatives		(16,571)	11,369	1,056
Cash generated from operations		84,662	149,650	94,756
Interest paid		(18,238)	(13,007)	(11,650)
Income taxes paid		(681)	(3,294)	(484)
Net cash flows from operating activities		65,743	133,349	82,622
Purchases of tangible and intangible assets	5, 6	(103,999)	(21,179)	(60,115)
Advanced payments for non-current items		(29,077)	(6,696)	(206)
Proceeds from sale of tangible and intangible assets		29,898	31	123,741
Advanced payments for sale of tangible assets		0	31,099	0
Dividends received from associates	7, 29	332	0	0
Acquisition of investments in associates	7	(6)	(322)	0
Cash flow from investing activities		(102,852)	2,933	63,420
Principal payments on interest-bearing liabilities		(64,218)	(97,144)	(234,749)
Proceeds from long-term borrowings		73,389	9,582	75,717
Increase in other capital reserves	9	130,000	0	0
Increase in share capital		0	0	4
Partners' distributions		(563)	(4,330)	(1,487)
Principle payments on loans due to related parties		0	(1,838)	(1,731)
Cash flow from financing activities		138,608	(93,730)	(162,246)
Change in cash and cash equivalents		101,499	42,552	(16,204)
Cash and cash equivalents at beginning of period		87,552	45,000	61,204
Cash and cash equivalents at end of period		189,051	87,552	45,000

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Consolidated Statements of Changes in Equity

	Note	Share capital	Limited partners' capital	Other capital reserves	Retained earnings and profit (loss) for the year	Fair value reserve	Total	Minority interest	Total equity
		Attributable to equity holders of the parent							
		€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Balances at December 31, 2002		**26**	**30,678**	**0**	**6,328**	**(201)**	**36,831**	**118,776**	**155,607**
Net unrealized changes in available-for-sale securities, net of tax						83	83		83
Net income recognized directly in equity						83	83		83
Profit for the year					11,987		11,987	24,753	36,740
Total recognized income and expense for the period					11,987	83	12,070	24,753	36,823
Decrease in minority interest							0	(1,487)	(1,487)
Increase in limited partners' capital			10,322		(10,322)		0		0
Increase in share capital		4					4		4
Balances at December 31, 2003		**30**	**41,000**	**0**	**7,993**	**(118)**	**48,905**	**142,042**	**190,947**
Net unrealized changes in available-for-sale securities, net of tax						4	4		4
Net income recognized directly in equity						4	4		4
Loss for the year					(2,922)		(2,922)		(2,922)
Total recognized income and expense for the period					(2,922)	4	(2,918)		(2,918)
Increase in limited partners' capital			300		(300)		0		0
Decrease in minoritys' interests				55,551	86,491		142,042	(142,042)	0
Partners` distributions					(4,330)		(4,330)		(4,330)
Balances at December 31, 2004		**30**	**41,300**	**55,551**	**86,932**	**(114)**	**183,699**	**0**	**183,699**
Net unrealized changes in available-for-sale securities, net of tax						(13)	(13)		(13)
Net income recognized directly in equity						(13)	(13)		(13)
Loss for the year					(115,900)		(115,900)		(115,900)
Total recognized income and expense for the period					(115,900)	(13)	(115,913)		(115,913)
Change in limited partners' capital	9		(41,300)	161,475			120,175		120,175
Increase in share capital	9	10,073					10,073		10,073
Decrease in share capital		(30)		30			0		0
Partners` distributions					(811)		(811)		(811)
Balances at December 31, 2005		**10,073**	**0**	**217,056**	**(29,779)**	**(127)**	**197,223**	**0**	**197,223**

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Air Berlin PLC, London

Notes to the consolidated financial statements as of 31 December 2005, 2004, and 2003

(Euro in thousands, except share data)

1. Introduction

The consolidated financial statements of Air Berlin PLC for the years ending 31 December 2005, 2004, and 2003 comprise Air Berlin PLC and its subsidiaries (together referred to as "Air Berlin" or the "Group") and the Group's interest in associates. Air Berlin is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of Air Berlin are located in Berlin.

Air Berlin operates flights from Germany to destinations on the Mediterranean, the Canary Islands, Portugal, and North Africa. Since September 2002, Air Berlin has also been offering a Euro Shuttle that connects German cities with Barcelona, Bergamo, Budapest, London, Madrid, Manchester, Milan, Rome, Southampton, Vienna, and Zurich. Tickets are sold to travel agencies and individual passengers.

2. Basic principles and preparation of financial statements

The consolidated financial statements as of 31 December 2005, 2004, and 2003 have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU. These are the Group's first consolidated financial statements and IFRS 1 has been applied.

The Group has adopted IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and elected not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS on 1 January 2003. All assets and liabilities acquired or assumed in such a business combination are recognised at the date of transition to IFRS. Any changes in the carrying values of assets or liabilities due to a measurement required by IFRS have been adjusted to retained earnings.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 32.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2003 for the purposes of the transition to IFRS. The accounting policies have been applied consistently by Group entities.

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

The consolidated financial statements have been prepared in Euro. The financial statements were authorised for issue by the board of directors on 5 March 2006.

3. Methods of consolidation

a) Subsidiaries

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

The following subsidiaries are included in the consolidated financial statements:

	2005	2004	2003
	€	€	€
Air Berlin Beteiligungsgesellschaft mbH	•	•	•
Air Berlin Finance GmbH i.G.	•		
Air Berlin PLC & Co. Luftverkehrs KG	•	•	•
Air Berlin Luftfahrttechnischer Betrieb GmbH	•	•	•
AB Erste Flugzeugvermietungs GmbH	•	•	•
AB Zweite Flugzeugvermietungs GmbH	•	•	•
AB Dritte Flugzeugvermietungs GmbH	•	•	•
AB Vierte Flugzeugvermietungs GmbH	•	•	•
AB Achte Flugzeugvermietungs GmbH	•		
Air Berlin GmbH & Co. Fünfte Flugzeugvermietungs OHG	•	•	
Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG	•	•	
Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG	•	•	
Euconus Flugzeugleasinggesellschaft mbH*	•	•	•
Joachim Hunold & Co. Flugzeugvermietungs KG i.L.*	•	•	•
CHS Cabin and Handling Service GmbH	•	•	•
CHS Cabin and Handling Service Bayern GmbH	•	•	•
CHS Cabin and Handling Service Mitte GmbH	•	•	•
CHS Cabin and Handling Service Nord GmbH	•	•	•
CHS Cabin and Handling Service Ost GmbH	•	•	•
CHS Cabin and Handling Service Süd GmbH	•	•	•
CHS Cabin and Handling Service West GmbH	•	•	•
CHS Cabin and Handling Service Süd-West GmbH	•	•	•
CHS Cabin and Handling Service Nord-West GmbH	•	•	•
CHS Cabin and Handling Service NRW-West GmbH	•	•	•
CHS Cabin and Handling Service NRW-Ost GmbH			•
CHS Cabin and Handling Service NRW-Nord GmbH			•
CHS Switzerland AG	•	•	
CHSC Cabin and Handling Service Center GmbH	•	•	•
CHAS Cabin and Handling Airport Service GmbH	•	•	•
Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH	•		
Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH	•		
Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH	•		
Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH	•		
Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH	•		
Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH	•		
Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH	•		
Joachim Hunold & Co. OHG*			•
Joachim Hunold & Co. Zweite OHG*			•
Joachim Hunold & Co. Vierte OHG*			•

* included as special purpose entities in 2003

In 2003, some entities were included in the consolidated statements as special purpose entities (SPE's) in the context of SIC-12. Minority interests in the profit or loss and net assets of consolidated special purpose entities are identified and presented separately from the equity holders of the parent. Minority interests in the net assets consist of the amount of those minority interests at the date of the business combination calculated under IFRS, and the minority's share of changes in equity since the date of the business combination.

Due to a legal merger with other Group companies in 2004, these entities are no longer consolidated as SPE's but the net assets are included in the individual financial statements of those other consolidated subsidiaries. The merger has been accounted for as a business combination under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

In the absence of more specific guidance, the Group consistently applied the book value measurement method to all common control transactions. Thus, the net assets transferred have been reported with their IFRS carrying values in the consolidated IFRS financial statements. Consequently, the merger had no accounting impact on the consolidated IFRS financial statements. During the course of the merger, the limited partners' capital was increased by € 300,000 and the minority interest in the net assets of the merged SPEs was reclassified to other capital reserves and retained earnings.

In 2005, the Group reorganized its legal structure. Thereby each shareholder transferred its respective holding in Air Berlin Beteiligungsgesellschaft mbH and Air Berlin GmbH & Co. Luftverkehrs KG to several German limited liability companies (Pegasus GmbHs) owned by the existing shareholders in consideration for the issue of an additional share in the GmbH. Based on contribution and transfer agreements between Air Berlin PLC and the existing shareholders, the shareholders then contributed their shares in the Pegasus GmbHs to Air Berlin PLC in consideration for the issuance of 10 million ordinary shares by Air Berlin PLC. Each shareholder received shares in proportion to the former interests in Air Berlin GmbH & Co. Luftverkehrs KG. Further, the position of general partner interest of Air Berlin GmbH & Co. Luftverkehrs KG from Air Berlin Beteiligungsgesellschaft mbH was transferred to Air Berlin PLC.

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

The assets and liabilities of the Group are recognised and measured in the consolidated financial statements at their pre-combination carrying amounts. The equity structure in the consolidated financial statements, however, reflects the equity structure of Air Berlin PLC including the equity instrument issued by the legal parent to effect the combination. Due to the reverse acquisition, the limited partners' capital is reclassified to other capital reserves.

The comparative information presented in the consolidated financial statements is that of Air Berlin PLC & Co. Luftverkehrs KG and subsidiaries. In accordance with IAS 1.36 the financial statements as of 31 December 2005 include two years of comparative information. These comparative information as of 31 December 2004 and 31 December 2003 represent financial statements as well, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements.

b) Associates

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

c) Transactions eliminated on consolidation

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

4. Significant accounting policies

a) Intangible and tangible assets

Acquired intangible assets are recognised at cost less depreciation charges. Tangible assets are valued at acquisition or production costs less depreciation charges. Depreciation is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives. Borrowing costs that are directly attributable to the acquisition of aircraft and engines are capitalized as part of the costs of those qualifying assets. Other borrowing costs are expensed as incurred.

Borrowing costs capitalised during 2005, 2004, and 2003 are € 3,150, € nil, and € 1,454, respectively, at borrowing rates of 2.28% to 6.02%.

The estimated useful lives of intangible assets are as follows:

Software licences	3 years
Other rights	15 years

The Group owns aircraft and engines of the type Boeing 737-400, 737-800, and Airbus A320. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at each balance sheet date. Since the residual values are denominated in USD and need to be translated into Euro, the carrying amount as of 31 December 2005, 2004, and 2003 was adjusted accordingly. The changes in residual values and their impact on annual depreciation charges have been accounted for in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in the period of change. In 2005 the change of the total residual values led to a decrease of the depreciation charges by € 11,588 (2004: increase of € 6,035) resulting in corresponding changes of the carrying amounts.

A portion of the cost of an aircraft is attributed on acquisition to major inspection and overhaul costs of its engines and airframe and is depreciated separately over a period of five to seven years.

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

Technical equipment and machinery	8 years
Office equipment	3-13 years

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

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

In respect of tangible assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment test was triggered, because the Euro and USD exchange rate changed significantly which might have an adverse effect on the fair value of the aircraft. The Group carried out an impairment test based on a variety of assumptions and concluded that no impairment was required.

b) Subsequent expenditure

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

c) Investments in equity securities

Investments are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly as a separate component of equity.

d) Inventories

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

The amount of inventories expensed in the income statement for 2005, 2004 and 2003 are € 59,071, € 52,165, and € 48,349, respectively.

e) Accounts receivable

Trade and other accounts receivable are initially recognised at fair value and subsequently stated at amortised cost. Doubtful accounts receivable are written down to their realizable value. In addition to individual allowances, any recognisable risks from the general credit risk are accounted for by allowances.

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

f) Derivatives

Derivatives are used exclusively for hedging fuel price, interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to secure future cash flows. All derivatives that do not qualify for hedge accounting are classified as held for trading and are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the income statement as profit or loss.

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

Different hedging instruments are used to limit the fuel price risk.

Air Berlin uses combined interest rate and currency swaps to convert variable rate liabilities in foreign currency to fixed rate positions in the functional currency.

g) Cash and cash equivalents

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

h) Provisions

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

i) Interest-bearing borrowings

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

j) Trade and other payables

Trade and other payables are initially recognised at their fair value and subsequently stated at their amortised cost. Liabilities in foreign currencies are translated at the closing rate.

k) Income taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

l) Foreign Currency

Transactions in foreign currencies are translated into Euro at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated into Euro at the exchange rate at the balance sheet date. Any differences resulting from the currency translation are recognised in the income statement.

Exchange differences arising from interest-bearing liabilities and other financing activities are classified as part of financing costs. All other exchange rate differences are allocated to the various income and expense line items from which they arose within operating results.

Net foreign exchange gains and (losses) recognised in the income statement for 2005, 2004 and 2003 are € (6,308), € 8,937, and € 80,535, respectively.

m) Recognition of income and expenses

Revenue and other operating income are recognised when the corresponding service has been performed or when the risks and rewards associated with the right of ownership are transferred to the buyer. Revenue is measured at the fair value of the consideration received taking into account the amount of any sales deductions. At the time at which the income is recognised, the related expenses are also recognised (matching principle), provided that, if the expenses have not yet led to an outflow of resources, a liability exists.

n) Operating leases

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

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

o) Use of estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4 a).

p) New pronouncements

The following adopted IFRS were available for early application but have not been applied by the Group in these financial statements:

- IFRS 7, *Financial instruments: Disclosure,* applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in 2005 would not have affected the balance sheets or income statement as the standard is concerned only with disclosure.

- IFRIC Interpretation 4, *Determining whether an Arrangement contains a Lease*, provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with IAS 17. Entities shall apply this Interpretation for annual periods beginning on or after 1 January 2006. Air Berlin does not expect that the application of this statement will have a significant effect on its financial statements.

5. Intangible Assets

In thousands of Euro	Software licences	Other rights	Total
Acquisition Cost			
Balance at 1 January 2003	3,095	869	3,964
Additions	1,475	0	1,475
Disposals	104	0	104
Balance at 31 December 2003	4,466	869	5,335
Additions	1,583	0	1,583
Disposals	8	0	8
Balance at 31 December 2004	6,041	869	6,910
Additions	1,647	0	1,647
Disposals	146	0	146
Balance at 31 December 2005	7,542	869	8,411
Depreciation			
Balance at 1 January 2003	1,931	652	2,583
Depreciation charge for the year	1,401	58	1,459
Disposals	103	0	103
Balance at 31 December 2003	3,229	710	3,939
Depreciation charge for the year	1,478	58	1,536
Disposals	8	0	8
Balance at 31 December 2004	4,699	768	5,467
Depreciation charge for the year	1,708	58	1,766
Disposals	138	0	138
Balance at 31 December 2005	6,269	826	7,095
Carrying amount			
At 1 January 2003	1,164	217	1,381
At 31 December 2003	1,237	159	1,396
At 31 December 2004	1,342	101	1,443
At 31 December 2005	1,273	43	1,316

6. Tangible Assets

In thousands of Euro	Aircraft and engines	Technical equipment and machinery	Office equipment	Total
Acquisition Cost				
Balance at 1 January 2003	1,000,727	31,352	13,611	1,045,690
Additions	85,272	8,214	6,076	99,562
Disposals	174,464	2,448	323	177,235
Balance at 31 December 2003	911,535	37,118	19,364	968,017
Additions	11,134	5,786	2,881	19,801
Disposals	2,023	197	119	2,339
Balance at 31 December 2004	920,646	42,707	22,126	985,479
Additions	89,265	13,177	9,132	111,574
Disposals	50,851	365	3,593	54,809
Balance at 31 December 2005	959,060	55,519	27,665	1,042,244
Depreciation				
Balance at 1 January 2003	109,137	14,197	7,584	130,918
Depreciation charge for the year	66,975	3,833	3,391	74,199
Disposals	26,554	2,286	288	29,128
Balance at 31 December 2003	149,558	15,744	10,687	175,989
Depreciation charge for the year	65,596	4,434	3,373	73,403
Disposals	920	109	118	1,147
Balance at 31 December 2004	214,234	20,069	13,942	248,245
Depreciation charge for the year	51,048	5,372	4,372	60,792
Disposals	18,355	241	955	19,551
Balance at 31 December 2005	246,927	25,200	17,359	289,486
Carrying amount				
At 1 January 2003	891,590	17,155	6,027	914,772
At 31 December 2003	761,977	21,374	8,677	792,028
At 31 December 2004	706,412	22,638	8,184	737,234
At 31 December 2005	712,133	30,319	10,306	752,758

7. Investments in associates

In thousands of Euro	Investments
Acquisition Cost	
Balance at 1 January 2003	632
Share of losses	(53)
Balance at 31 December 2003	579
Additions	323
Share of profits	332
Impairment losses	(250)
Balance at 31 December 2004	984
Additions	6
Dividends received	(369)
Share of profits	39
Balance at 31 December 2005	660

The Group has the following investments in associates:

		Ownership		
	Country	2005	2004	2003
Niki Luftfahrt GmbH, Vienna	Austria	24%	24%	-
TIS Total Inflight Solution Germany GmbH	Germany	24%	-	-
Stockheim Air Catering GmbH & Co. KG, Düsseldorf	Germany	24%	49%	-
Helvetia Express Flug AG, Kloten	Switzerland	45%	45%	-
IBERO Tours GmbH	Germany	50%	50%	50%

The Group's share of post-acquisition total recognised profit or loss in the above associates for the years ending 31 December 2005, 2004, and 2003 is € 39, € 332, and: € -53, respectively. The Group has not recognised losses relating to Niki Luftfahrt GmbH totalling € 423 in 2004. The Group has no obligation in respect of these losses.

An impairment charge of € 250 was recognised in 2004 regarding the investment in Helvetia Express Flug AG.

Summary financial information on associates – 100 per cent:

In thousands of Euro	Assets	Liabilities	Equity	Revenues	Profit/(loss)
2005					
Niki Luftfahrt GmbH, Vienna	*	*	*	*	*
TIS Total Inflight Solution Germany GmbH, Berlin	*	*	*	*	*
Stockheim Air Catering GmbH & Co. KG, Düsseldorf	*	*	*	*	*
Helvetia Express Flug AG, Kloten** (preliminary)	183	26	157	134	-280
IBERO Tours GmbH, Düsseldorf	*	*	*	*	*
2004					
Niki Luftfahrt GmbH, Vienna	15,395	16,206	-811	82,137	-1,634
Stockheim Air Catering GmbH & Co. KG, Düsseldorf	3,053	2,928	125	21,813	735
Helvetia Express Flug AG, Kloten***	676	235	441	831	-269
IBERO Tours GmbH, Düsseldorf	1,765	1,093	672	2,100	9
2003					
IBERO Tours GmbH, Düsseldorf	1,648	985	663	2,009	-108

* Figure is not yet available

** The amounts are determined using the exchange rate of the balance sheet date (1.5551 CHF/EUR)

*** The amounts are determined using the exchange rate of the balance sheet date (1.5429 CHF/EUR)

8. Other current assets

In thousands of Euro	2005	2004	2003
Receivables from closed foreign exchange contracts	23,477	-	-
Positive market values of derivatives	1,708	17	1,698
Receivables from tax authorities	7,444	4,204	2,286
Receivables from related parties	5,154	836	0
Advanced payments on aircraft and other tangible assets	26,697	6,696	206
Other assets	15,408	16,547	15,743
	79,888	28,300	19,933

Other assets mainly include receivables from insurance carriers (2005: € 1,175, 2004: € 6,952, and 2003: € 4,633) and suppliers with debit balances (2005: € 3,321, 2004: € 3,002, and 2003: € 6,257).

9. Share capital and reserves

Share capital

As of 31 December 2005, the authorized share capital of Air Berlin was € 100,000,000 and £ 50,000 (2004 and 2003: nil), divided into 100,000,000 ordinary shares of € 1.00 each and 50,000 A Shares of £ 1.00 each.

Of the authorized share capital of Air Berlin’s 10,000,001 ordinary shares of € 1.00 each and 50,000 A Shares of £ 1.00 each were issued and fully paid up. 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 and the holders of the A Shares shall not be entitled to any participation in the profits or assets of the Air Berlin save on a distribution of assets of the Air Berlin among its members on a winding up or other return of capital (other than a redemption or purchase by the Air Berlin of its own shares), in which case the holders of A Shares shall be entitled, in priority of to any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A Share.

Class A shares are classified as equity as these shares are redeemable but only at the option of Air Berlin.

No shares have been reserved for issue under options.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Other capital reserves

Other capital reserves are comprised of general partners’ and limited partners’ capital of consolidated partnerships and subscribed capital of consolidated entities which were reclassified to other capital reserves due to legal restructurings in 2004 and 2005.

In 2005, the limited partners contributed € 130,000 into other capital reserves.

Other capital reserves are distributable in limited circumstance such as sale or wind-down of the general or limited partnerships.

10. Minority interests

Minority interest carried in the balance sheet and charged in the profit and loss account at the end of 2003 is attributable to the minority interest in the net assets and profit or loss of Joachim Hunold & Co. OHG, Joachim Hunold & Co. Zweite OHG, Joachim Hunold & Co. Vierte OHG, Joachim Hunold & Co. Flugzeugvermietungs KG i.L., and Euconus Flugzeugleasinggesellschaft mbH.

11. 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.

	2005	2004	2003
Profit/loss attributable to ordinary shareholders	-115,900	- 2,922	11,987
Weighted average number of ordinary shares outstanding	10,000,001	10,000,001	10,000,001
Basic and diluted earnings per share in €	- 11.59	- 0.29	1.20

The 50,000 class A shares do not entitle the holders in any participation in the profits or loss of Air Berlin. These shares therefore have not been included in the calculation above.

12. Other Provisions

In thousands of Euro	At 1.1.2004	Utilization	Additions	Reversal	Balance at 31.12.2004
Repair of aircraft	0	0	586	0	586
	0	0	0	0	0

In thousands of Euro	At 1.1.2005	Utilization	Additions	Reversal	Balance at 31.12.2005
Repair of aircraft	586	0	462	0	1,048
	586	0	462	0	1,048

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

13. Accrued liabilities

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

14. Interest-bearing liabilities and liabilities due to banks from assignment of future lease payments

The Group entered into various interest-bearing loans due to banks. The borrowing rates for the years 2005, 2004 and 2003 are as follows:

In thousands of Euro

Interest rate	Duration until	Carrying amount 31.12.2005	Carrying amount 31.12.2004	Carrying amount 31.12.2003
EURIBOR plus 0.75% spread	2005	-	198	1,075
EURIBOR plus 1.5% spread, repayable upon delivery of the respective aircraft	2007	18,736	-	-
Fixed rate at 5.82%, due June 2008	2008	4,078	-	-
1 month LIBOR plus 3% spread, principal payable in monthly instalments	2009	3,044	3,314	4,293
1 month LIBOR plus 2% spread, principal payable in monthly instalments	2011	8,160	8,062	-
1 month LIBOR plus 2% spread, principal payable in semi-annual instalments	2012	6,402	-	-
1 month LIBOR plus 2% spread, principal payable in semi-annual instalments	2012	6,241	-	-
Bank overdraft		970	41	348
		47,631	11,615	5,716

Bank loans are collateralized by engines and aircraft in the amount of € 42.583.

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

In thousands of Euro

Interest rate	Duration until	Carrying amount 31.12.2005 €	Carrying amount 31.12.2004 €	Carrying amount 31.12.2003 €
LIBOR plus 4.20% spread	2004	-	-	1,738
LIBOR plus 4.20% spread	2005	-	2,650	7,216
LIBOR plus 0.625% spread	2005	-	21,585	23,869
LIBOR plus 3.00% spread	2006	244	1,142	2,249
LIBOR plus 4.20% spread	2006	683	3,222	6,305
LIBOR plus 0.625% spread	2006	13,090	12,442	20,842
LIBOR plus 0.63% spread	2006	42,539	41,258	74,119
LIBOR plus 0.85% spread	2008	1,257	1,453	1,974
LIBOR plus 0.625% spread	2010	103,995	103,913	121,970
LIBOR plus 0.85% spread	2011	51,336	56,732	61,655
LIBOR plus 0.85% spread	2012	70,270	67,480	79,987
LIBOR plus 1.10% spread	2012	21,401	20,547	24,426
LIBOR plus 0.95% spread	2013	22,382	21,288	25,108
LIBOR plus 1.20% spread	2013	22,796	21,732	25,703
LIBOR plus 1.25% spread	2013	44,458	42,233	49,777
LIBOR plus 1.85% spread	2013	4,939	-	-
LIBOR plus 1.30% spread	2016	51,332	-	-
		450,722	417,677	526,938

The assigned intra-group lease payments are secured over aircraft.

The aggregate maturity of interest-bearing liabilities and loans due to banks from sales of future intra-group lease payments are as follows:

In thousands of Euro	2005	2004	2003
Less than one year	117,370	49,670	54,524
Between one and five years	244,719	216,940	231,276
More than five years	136,264	162,682	246,854
	498,353	429,292	532,654

15. Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of Euro	2005	2004	2003
Less than one year	77,426	52,796	53,983
Between one and five years	158,065	95,370	107,977
More than five years	6,713	5,694	13,906
	242,204	153,860	175,866

The Group leases a number of aircraft and one Unix-Server which, pursuant to their economic contents, qualify as operating lease agreements. The leases typically run for a period between five and seven years. Usually, the agreements terminate automatically after expiry of the lease term, in some cases leases extension options have been agreed upon. Lease payments are denominated in USD and vary depending upon the change in the market rate of interest.

The allocation of the lease payments to basic and contingent lease expenses cannot be reliably determined.

In addition the Group leases a number of warehouse and office facilities under operating leases. The leases expire between 2008 and 2014, with an option to renew the leases after these dates. None of the leases include contingent rentals.

During the year ending 31 December 2005 € 104,177 (2004: € 74,034, and 2003: € 72,090) was recognised as an expense in the income statement in respect of operating leases.

16. Other liabilities

In thousands of Euro	2005	2004	2003
Negative market values from financial derivatives			
- Forward contracts	3,772	20,892	11,199
- Commodity-swaps	2,093	0	0
- Cross currency interest rate swaps	146	0	0
Receivables with credit balances	3,258	1,979	5,138
Social insurance contributions	3,155	2,499	2,270
Other	2,948	2,296	3,443
	15,372	27,666	22,050

17. Revenue

In thousands of Euro	2005	2004	2003
Single-seat ticket sales	632,318	509,503	358,194
Bulk ticket sales to charter and package tour operators	496,679	461,615	452,852
Duty free	14,975	14,290	14,420
Ground and other services	71,268	48,472	37,764
	1,215,240	1,033,880	863,230

Air Berlin recognizes ticket sales as income at the time when the transportation is provided. When the fare is for a round-trip and the return flight has not been provided at year end, the unearned revenue is deferred in the consolidated balance sheet under “deferred income” until such time the transportation is provided. Deferred income is estimated based on historical experience and past general passenger behaviour.

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

18. Other operating income

In thousands of Euro	2005	2004	2003
Gain on disposal of fixed assets	458	25	1,115
Income from reimbursement from Niki for processing costs	909	735	-
Refunds of security charges 2001-2003	-	8,590	-
Income from insurance claims	1,094	888	1,899
Reversal of accrued liabilities	824	1,105	-
Other	1,446	2,052	1,045
	4,731	13,395	4,059

19. Expenses for materials and services

In thousands of Euro	2005	2004	2003
Fuel for aircraft	239,531	171,415	133,261
Catering costs and cost of materials for in-flight sales	58,535	52,606	47,915
Airport & handling charges	333,392	282,622	234,091
Operating Leases	96,163	75,623	75,067
Navigation charges	109,018	99,179	94,289
Other	27,506	23,825	3,480
	864,145	705,270	588,103

20. Personnel expenses and staff numbers

The aggregate payroll costs were as follows:

In thousands of Euro	2005	2004	2003
Wages and salaries	99,463	85,561	77,054
Social security	17,440	15,264	13,037
	116,903	100,825	90,091

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

Employees	On annual average 2005	On annual average 2004	On annual average 2003	As at 31 December 2005	As at 31 December 2004	As at 31 December 2003
Flight and cabin crew	1,282	1,206	1,087	1,379	1,223	1,113
Sales, operations and administration	1,019	884	778	1,109	923	843
	2,301	2,090	1,865	2,488	2,146	1,956

Directors' Remuneration is as follows:

In thousands of Euro	2005	2004	2003
Basic remuneration	840	830	830
Bonus	535	565	65
Other	34	38	35
	1,409	1,433	930

The highest paid director received € 1,006, € 1,007 and € 507 in total remuneration in 2005, 2004 and 2003, respectively.

21. Other operating expenses

In thousands of Euro	2005	2004	2003
Sales commissions paid to agencies	37,208	32,791	25,986
Repairs and maintenance of technical equipment	35,921	46,443	37,577
Advertising	29,199	20,618	15,207
Insurances	15,561	17,396	20,195
Hardware and software expenses	11,298	9,586	6,963
Bank charges	7,825	5,876	3,706
Travel expenses for cabin crews	7,241	7,005	7,434
Expenses for premises and vehicles	8,663	6,788	5,245
Losses from disposal of fixed assets	5,824	1.185	25.448
Training and other personnel costs	4,556	3,829	5,331
Phone and postage	2,763	3,172	2,747
Allowances for receivables	1,018	1,058	596
Remuneration of the auditor			
Audit	328	418	311
Tax	841	317	220
Other services	313	155	190
Other	13,349	10.278	9.091
	181,908	166,915	166.247

22. Financial expenses

In thousands of Euro	2005	2004	2003
Interest paid on interest-bearing liabilities	19,026	13,075	13,633
Impairment of associates	0	250	0
	19,026	13,325	13,633

23. Foreign exchange gains (losses), net

Foreign exchange gains (losses), net, result from exchange rate difference at settlement date or revaluation of interest-bearing liabilities and liabilities due to bank from assignment of future intra-group lease payments at the balance sheet date.

24. Share of profit (loss) of associates

In thousands of Euro	2005	2004	2003
IBERO Tours GmbH	2	0	-53
Stockheim Air Catering GmbH & Co. KG	37	332	0
	39	332	- 53

25. Income tax expense/ Deferred tax

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

In thousands of Euro	2005	2004	2003
Current income taxes	1,076	1,047	472
Deferred income taxes	43,953	18,822	7,546
Total income tax expense	45,029	19,869	8,018

Since Air Berlin Group was until the end of year 2005 largely structured as private partnerships, the consolidated group was only subject to trade tax at a rate of 17.01%. Thus, current and deferred taxes have been calculated in 2003 and 2004 using this tax rate. Due to the group-restructuring as of 31 December 2005 the Group is now subject to both corporation tax and trade tax. The corporation tax rate for retained and distributed profits is 25%. In addition to corporation tax, a solidarity charge is also levied amounting to 5.5% of the payable corporation tax. Trade tax is deductible for corporation tax purposes and the effective tax rate varies depending on the municipality in which the company operates. The average trade tax rates for 2003 and 2004 were approximately 17.01%. In 2005, the total tax rate (including corporation tax and trade tax) for the Air Berlin group amounted to 38.90%. Furthermore, the Air Berlin GmbH & Co. Fünfte Flugzeugvermietungs OHG, the Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG and the Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG including their subsidiaries have relocated their offices to Schönefeld. For the companies located in Schönefeld, the total tax rate amounts to 33.07%. The difference to the group tax rate is shown as “tax rate difference” in the tax rate reconciliation.

The reasons for the differences between the tax burden expected on the basis of profit (loss) for a period and the recognised income tax expenses are as follows:

In thousands of Euro	2005	2004	2003
Profit (loss) before tax	- 70,871	16,947	44,758
Expected income tax (benefit) expense at 38.90% (17.01% in 2004 and 2003)	- 27,569	2,883	7,613
Effect of the change in tax status	59,466	0	0
Tax rate difference current year	7,039	0	0
Forfeiture of tax loss carryforwards	6,003	16,675	0
Other	90	311	405
	45,029	19,869	8,018

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

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

Deferred tax assets and liabilities are attributable to the following:

In thousands of Euro	2005	2004	2003
Deferred tax assets			
Technical equipment	6,148	0	0
Foreign currency liabilities and derivatives	2,071	0	1,904
Tax loss carryforwards	5,685	8,130	27,968
	13,904	8,130	29,872
Deferred tax liabilities			
Aircraft and engines	85,136	41,570	41,093
Financial assets	47	23	310
Leasehold improvements	56	0	0
Provisions	1,668	1,184	675
Foreign currency liabilities and derivatives	23.830	18,233	21,851
	110,737	61,010	63,929
Offsetting	13,904	8,130	29,872
Deferred tax liabilities, net	96,833	52,880	34,057

As of 31 December 2005, total tax loss carryforwards for trade tax purposes amount to € 30,055 and for income tax purposes according to sec. 15a Income Tax Code (EStG) to € 12,314. The tax loss carryforwards are not subject to expiration. However, the usage of tax loss carryforwards may be limited due to minimum tax provisions. According to German Corporate Tax Law (KStG) and Trade Tax Law (GewSt), tax law carryforwards may be used unlimited up to the amount of € 1,000 of profits for the year. The remaining profits may be off-set with tax loss carryforwards only by 60% of the profits for the year. Accordingly, deferred tax assets have been recognised. This assumption is corroborated by the taxable income resulting from reversals of deferred tax liabilities.

As a consequence of the restructuring, the trade tax loss carryforward at Air Berlin PLC & Co. Luftverkehrs KG in the amount of € 35,288 was forfeited in 2005.

Due to the merger of the Joachim Hunold & Co. OHG, Joachim Hunold & Co. Zweite OHG and Joachim Hunold & Co. Vierte OHG with the Air Berlin GmbH & Co. Luftverkehrs KG in the fiscal year 2004, the trade tax loss carryforward of the OHG's in the amount of € 98,031 were forfeited at the end of 2004.

26. Contingencies

The Group is defendant in a claim in which the airport is seeking fees of € 2,362, € 4,776 and € 3,142 in 2005, 2004 and 2003, respectively, due to infrastructure measures. Management of the Group is of the opinion that the airport's claim is without merit and the Group will prevail in defending the claim.

27. Hedge policy and financial instruments

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

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

In thousands of Euro	2005	2004	2003
Forward-exchange transactions	- 3,772	-20,892	-11,199
Cross currency interest rate swaps	-146	0	0
Commodity-swaps fuel-price hedging	- 2,093	17	1,698
Commodity-options fuel-price hedging	1,708	0	0
	- 4,303	- 20,875	-9,501

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

a) Currency hedging

Air Berlin enters into USD currency forwards in order to manage functional currency risk which arises on operating costs (e.g., aircraft payments, fuel) denominated in USD. Within the cash planning, Air Berlin is able to determine the exact future foreign currency expense and payment dates. Therefore, Air Berlin uses forward exchange contracts as basis for hedging and cash planning. Air Berlin generally hedges up to 80% of the expected cash flow on a 12 months revolving basis. At the balance sheet date 2005, the hedged currency position in USD amounted to USD 347.2 million for the business year 2006 (2004: USD 318.0 million for the business year 2005 and USD 24.0 million for 2006; 2003: USD 185.2 million for the business year 2004). The value of the currency forward contracts amount to a total of € 289.6 million (2004: € 249.7 million; 2003: € 146.6 million) and was determined using the market exchange rates of the balance sheet date.

b) Hedging of interest rate risk

The interest bearing liabilities and liabilities due to banks from assignment of future lease payments expose the Group to variability in interest payments due to changes in interest rates and to a foreign currency risk. In 2005, Air Berlin used for the first time cross currency swaps to hedge these risks.

c) Hedging of fuel price risk

The fuel price (kerosene) plays an important role as far as the business performance of the company is concerned. The kerosene expense of Air Berlin amounted to 19.5% (2004: 16.4%, and 2003: 14.6%) of the entire operating expense. At the balance sheet date 2005, the hedged volume was 56,500 tons (2004: 5,400 tons; 2003: 22,800 tons) for the business year 2006. Air Berlin used commodity swaps and options to hedge the exposure.

d) Credit risk

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

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

e) Liquidity risk

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

f) Fair values

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

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

Securities

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

Derivatives

Forward exchange contracts and fuel price contracts are marked to market using listed market prices.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivables / payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

28. Cash Flow Statement

The Cash Flow Statement of the Air Berlin Group is presented according to the indirect method. Financial resources include cash, checks, and deposits with banks as current assets with a maturity of less than three months.

29. Related party transactions

The Group has related party relationships with its directors, general partners, subsidiaries (see note 3), and associates (see note 7).

Total remuneration of directors is included in "personnel expenses" (see note 20).

One director of the Group controls a voting share of 5% (2004: 5%, 2003: 5%) of Air Berlin.

One shareholder with a voting share of 4% is the sole shareholder of Phönix Reisen GmbH. The group had revenues from ticket sales with Phönix Reisen GmbH in 2005, 2004 and 2003 of € 13,425, € 11,730, and € 9,585, respectively. At 31 December 2005, 2004 and 2003 € 818, € 1,917, and € 786, respectively, are included in the balance sheet in trade receivables.

In 2002, the Group received loans from its general partners in the amount of € 5,200 bearing interest at LIBOR plus 4.2% spread. The loan is included in other liabilities and had a carrying amount of € 1,838 as of 31 December 2003 which was fully repaid during 2004.

During the years ending 31 December 2005, 2004, and 2003 associates purchased or delivered goods and services:

In thousands of Euro	2005	2004	2003
IBERO-Tours			
Revenues from ticket sales	92	73	41
Trade receivables	10	13	2
Stockheim			
Catering expenses	17,983	15,923	13,727
Trade payables	84	240	621
Niki Luftfahrt GmbH			
Administrative services	909	735	-
Other current assets	5,154	812	-

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

Dividends received from associates in 2005 are € 370 (2004 and 2003: € nil).

30. Capital commitments

During the year ending 31 December 2004, the Group entered into a contract to purchase 60 aircraft which will be delivered in 2005 through 2011. In 2005, two aircraft were delivered and nine aircraft are scheduled for delivery in 2006.

In addition, the Group entered into a contract to purchase 3 engines which will be delivered in 2006.

31. Executive board of directors

Executive directors

Joachim Hunold	Chief Executive Officer
Ulf Hüttmeyer	Chief Financial Officer (since 1 February 2006)
Karl Lotz	Chief Operating Officer
Elke Schütt	Chief Commercial Officer

32. Explanation of transition to IFRS

As stated in note 2, these are the Group's first consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ending 31 December 2005, the comparative information presented in these financial statements for the year ending 31 December 2004 and 2003 and in the preparation of an opening IFRS balance sheet at 1 January 2003 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with German Commercial Code (HGB) as the former basis of accounting. An explanation of how the transition from HGB to IFRS has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The Group did not prepare cash flow statements under previous GAAP.

Reconciliation of profit or (loss) from HGB to IFRS

In thousands of Euro	2004	2003
Profit or (loss) according to HGB	-9,234	-19,780
IFRS adjustments:		
Consolidation of special purpose entities	-	-55,696
Aircraft and engines	16,512	42,897
Foreign exchange gains (losses)	16,495	75,774
Derivative accounting	-11,375	-1,056
Income taxes	-17,952	-7,546
Provisions	2,632	2,200
Other	-	-53
Profit or (loss) according to IFRS	-2,922	36,740

Reconciliation of total equity from HGB to IFRS

In thousands of Euro	31 December 2004	31 December 2003	1 January 2003
Total equity according to HGB	9,101	24,203	41,712
IFRS adjustments:			
Consolidation of special purpose entities	-	-161,983	- 169,122
Aircraft and engines	91,087	241,581	266,938
Foreign exchange gains (losses)	128,067	128,461	52,687
Derivative accounting	-20,875	-9,500	-8,444
Income taxes	-30,824	-34,057	-26,511
Provisions	6,959	3,968	1,767
Available-for-sale investments	237	165	149
Reclassification of loans to "due to related parties"	-	- 1,838	-3,569
Other	-53	- 53	-
Total equity according to IFRS	183,699	190,947	155,607

a) Consolidation of special purpose entities

Unlike IFRS, special purpose entities had not been consolidated in the financials prepared in accordance with HGB. Pursuant to SIC-12, *Consolidation-Special Purpose Entities*, these entities were consolidated in the 2003 IFRS financial statements (see note 2).

In 2004, these entities were legally merged with the Group and are included in the consolidation as subsidiaries.

b) Aircraft and engines

Under HGB, aircraft and engines were generally depreciated over the estimated useful life of 12 years on a straight-line basis. However, aircraft of special purpose entities were depreciated over 12 years using the accelerated method.

Under IFRS, depreciation is based on an estimated useful life of 10 years. The depreciable amount is determined by deduction of a residual value of the aircraft. In addition, major inspection and overhaul costs are accounted for as a separate component, and are depreciated over the useful life of about five or seven years.

c) Foreign exchange gains (losses)

Under HGB, unrealized gains on changes in foreign exchange rates are not reflected in the income statement.

In accordance with IAS 21, foreign currency receivables and liabilities are translated at the closing date rate with the effects of changes in foreign exchange rates recognised immediately in net profit or loss for the year.

d) Derivative accounting

Unlike HGB, all derivative financial instruments have been recognised as assets or liabilities at fair value insofar as they qualify as being held for trading in accordance with IFRS. Any effects of changes in the fair value have been recognised in net profit or loss for the period.

e) Income taxes

Under HGB, deferred taxes are recognised following the concept of timing differences which is focused on the income statement. Furthermore, under HGB the Group did not recognize a deferred tax asset for the carryforward of unused tax losses.

In accordance with IFRS, deferred taxes are provided for the estimated effects of temporary differences and unused tax loss carryforwards. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

f) Provisions

Under HGB, the Group provided for legal contingencies where the probability of an outflow of resources is more likely than not.

In accordance with IAS 37, a provision is recognised when there is a legal or constructive obligation arising from past events, and when an outflow of resources is probable. As such, certain provisions, that did not meet those criteria, have not been recognised.

g) Available-for-sale investments

Under HGB, the Group did not capitalize its shares in France Telecom on the balance sheet.

In accordance with IFRS, available-for-sale investments are recognised as assets at fair value. The effect of measuring available-for-sale securities at fair value is recognised directly as a separate component of equity.

General Engagement Terms

[Translator's notes are in square brackets]

General Engagement Terms

for

Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften

[German Public Auditors and Public Audit Firms] as of January 1, 2002

This is an English translation of the German text, which is the sole authoritative version

1. Scope

(1) These engagement terms are applicable to contracts between Wirtschaftsprüfer [German Public Auditors] or Wirtschaftsprüfungsgesellschaften [German Public Audit Firms] (hereinafter collectively referred to as the "Wirtschaftsprüfer") and their clients for audits, consulting and other engagements to the extent that something else has not been expressly agreed to in writing or is not compulsory due to legal requirements.

(2) If, in an individual case, as an exception contractual relations have also been established between the Wirtschaftsprüfer and persons other than the client, the provisions of No. 9 below also apply to such third parties.

2. Scope and performance of the engagement

(1) Subject of the Wirtschaftsprüfer's engagement is the performance of agreed services – not a particular economic result. The engagement is performed in accordance with the Grundsätze ordnungsmäßiger Berufsausübung [Standards of Proper Professional Conduct]. The Wirtschaftsprüfer is entitled to use qualified persons to conduct the engagement.

(2) The application of foreign law requires – except for financial attestation engagements – an express written agreement.

(3) The engagement does not extend – to the extent it is not directed thereto – to an examination of the issue of whether the requirements of tax law or special regulations, such as, for example, laws on price controls, laws limiting competition and Bewirtschaftungsrecht [laws controlling certain aspects of specific business operations] were observed; the same applies to the determination as to whether subsidies, allowances or other benefits may be claimed. The performance of an engagement encompasses auditing procedures aimed at the detection of the defalcation of books and records and other irregularities only if during the conduct of audits grounds therefor arise or if this has been expressly agreed to in writing.

(4) If the legal position changes subsequent to the issuance of the final professional statement, the Wirtschaftsprüfer is not obliged to inform the client of changes or any consequences resulting therefrom.

3. The client's duty to inform

(1) The client must ensure that the Wirtschaftsprüfer – even without his special request – is provided, on a timely basis, with all supporting documents and records required for and is informed of all events and circumstances which may be significant to the performance of the engagement. This also applies to those supporting documents and records, events and circumstances which first become known during the Wirtschaftsprüfer's work.

(2) Upon the Wirtschaftsprüfer's request, the client must confirm in a written statement drafted by the Wirtschaftsprüfer that the supporting documents and records and the information and explanations provided are complete.

4. Ensuring independence

The client guarantees to refrain from everything which may endanger the independence of the Wirtschaftsprüfer's staff. This particularly applies to offers of employment and offers to undertake engagements on one's own account.

5. Reporting and verbal information

If the Wirtschaftsprüfer is required to present the results of his work in writing, only that written presentation is authoritative. For audit engagements the long-form report should be submitted in writing to the extent that nothing else has been agreed to. Verbal statements and information provided by the Wirtschaftsprüfer's staff beyond the engagement agreed to are never binding.

6. Protection of the Wirtschaftsprüfer's intellectual property

The client guarantees that expert opinions, organizational charts, drafts, sketches, schedules and calculations – expecially quantity and cost computations – prepared by the Wirtschaftsprüfer within the scope of the engagement will be used only for his own purposes.

7. Transmission of the Wirtschaftsprüfer's professional statement

(1) The transmission of a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) to a third party requires the Wirtschaftsprüfer's written consent to the extent that the permission to transmit to a certain third party does not result from the engagement terms.

The Wirtschaftsprüfer is liable (within the limits of No. 9) towards third parties only if the prerequisites of the first sentence are given.

(2) The use of the Wirtschaftsprüfer's professional statements for promotional purposes is not permitted; an infringement entitles the Wirtschaftsprüfer to immediately cancel all engagements not yet conducted for the client.

8. Correction of deficiencies

(1) Where there are deficiencies, the client is entitled to subsequent fulfillment [of the contract]. The client may demand a reduction in fees or the cancellation of the contract only for the failure to subsequently fulfill [the contract]; if the engagement was awarded by a person carrying on a commercial business as part of that commercial business, a government-owned legal person under public law or a special government-owned fund under public law, the client may demand the cancellation of the contract only if the services rendered are of no interest to him due to the failure to subsequently fulfill [the contract]. No. 9 applies to the extent that claims for damages exist beyond this.

(2) The client must assert his claim for the correction of deficiencies in writing without delay. Claims pursuant to the first paragraph not arising from an intentional tort cease to be enforceable one year after the commencement of the statutory time limit for enforcement.

(3) Obvious deficiencies, such as typing and arithmetical errors and formelle Mängel [deficiencies associated with technicalities] contained in a Wirtschaftsprüfer's professional statements (long-form reports, expert opinions and the like) may be corrected – and also be applicable versus third parties – by the Wirtschaftsprüfer at any time. Errors which may call into question the conclusions contained in the Wirtschaftsprüfer's professional statements entitle the Wirtschaftsprüfer to withdraw – also versus third parties – such statements. In the cases noted the Wirtschaftsprüfer should first hear the client, if possible.

9. Liability

(1) The liability limitation of § ["Article"] 323 (2)["paragraph 2"] HGB ["Handelsgesetzbuch": German Commercial Code] applies to statutory audits required by law.

(2) Liability for negligence; An individual case of damages

If neither No. 1 is applicable nor a regulation exists in an individual case, pursuant to § 54a (1) no. 2 WPO ["Wirtschaftsprüferordnung": Law regulating the Profession of Wirtschaftsprüfer] the liability of the Wirtschaftsprüfer for claims of compensatory damages of any kind – except for damages resulting from injury to life, body or health – for an individual case of damages resulting from negligence is limited to € 4 million; this also applies if liability to a person other than the client should be established. An individual case of damages also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty without taking into account whether the damages occurred in one year or in a number of successive years. In this case multiple acts or omissions of acts based on a similar source of error or on a source of error of an equivalent nature are deemed to be a uniform breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the Wirtschaftsprüfer is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(3) Preclusive deadlines

A compensatory damages claim may only be lodged within a preclusive deadline of one year of the rightful claimant having become aware of the damage and of the event giving rise to the claim – at the very latest, however, within 5 years subsequent to the event giving rise to the claim. The claim expires if legal action is not taken within a six month deadline subsequent to the written refusal of acceptance of the indemnity and the client was informed of this consequence. The right to assert the bar of the preclusive deadline remains unaffected. Sentences 1 to 3 also apply to legally required audits with statutory liability limits.

10. Supplementary provisions for audit engagements

(1) A subsequent amendment or abridgement of the financial statements or management report audited by a Wirtschaftsprüfer and accompanied by an auditor's report requires the written consent of the Wirtschaftsprüfer even if these documents are not published. If the Wirtschaftsprüfer has not issued an auditor's report, a reference to the audit conducted by the Wirtschaftsprüfer in the management report or elsewhere specified for the general public is permitted only with the Wirtschaftsprüfer's written consent and using the wording authorized by him.

(2) If the Wirtschaftsprüfer revokes the auditor's report, it may no longer be used. If the client has already made use of the auditor's report, he must announce its revocation upon the Wirtschaftsprüfer's request.

(3) The client has a right to 5 copies of the long-form report. Additional copies will be charged for separately.

11. Supplementary provisions for assistance with tax matters

(1) When advising on an individual tax issue as well as when furnishing continuous tax advice, the Wirtschaftsprüfer is entitled to assume that the facts provided by the client – especially numerical disclosures – are correct and complete; this also applies to bookkeeping engagements. Nevertheless, he is obliged to inform the client of any errors he has discovered.

(2) The tax consulting engagement does not encompass procedures required to meet deadlines, unless the Wirtschaftsprüfer has explicitly accepted the engagement for this. In this event the client must provide the Wirtschaftsprüfer, on a timely basis, all supporting documents and records – especially tax assessments – material to meeting the deadlines, so that the Wirtschaftsprüfer has an appropriate time period available to work therewith.

(3) In the absence of other written agreements, continuous tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporation tax and business tax, as well as net worth tax returns on the basis of the annual financial statements and other schedules and evidence required for tax purposes to be submitted by the client

b) examination of tax assessments in relation to the taxes mentioned in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) participation in tax audits and evaluation of the results of tax audits with respect to the taxes mentioned in (a)

e) participation in Einspruchs- und Beschwerdeverfahren [appeals and complaint procedures] with respect to the taxes mentioned in (a).

In the afore-mentioned work the Wirtschaftsprüfer takes material published legal decisions and administrative interpretations into account.

(4) If the Wirtschaftsprüfer receives a fixed fee for continuous tax advice, in the absence of other written agreements the work mentioned under paragraph 3 (d) and (e) will be charged separately.

(5) Services with respect to special individual issues for income tax, corporate tax, business tax, valuation procedures for property and net worth taxation, and net worth tax as well as all issues in relation to sales tax, wages tax, other taxes and dues require a special engagement. This also applies to:

a) the treatment of nonrecurring tax matters, e. g. in the field of estate tax, capital transactions tax, real estate acquisition tax

b) participation and representation in proceedings before tax and administrative courts and in criminal proceedings with respect to taxes, and

c) the granting of advice and work with respect to expert opinions in connection with conversions of legal form, mergers, capital increases and reductions, financial reorganizations, admission and retirement of partners or shareholders, sale of a business, liquidations and the like.

(6) To the extent that the annual sales tax return is accepted as additional work, this does not include the review of any special accounting prerequisities nor of the issue as to whether all potential legal sales tax reductions have been claimed. No guarantee is assumed for the completeness of the supporting documents and records to validate the deduction of the input tax credit.

12. Confidentiality towards third parties and data security

(1) Pursuant to the law the Wirtschaftsprüfer is obliged to treat all facts that he comes to know in connection with his work as confidential, irrespective of whether these concern the client himself or his business associations, unless the client releases him from this obligation.

(2) The Wirtschaftsprüfer may only release long-form reports, expert opinions and other written statements on the results of his work to third parties with the consent of his client.

(3) The Wirtschaftsprüfer is entitled – within the purposes stipulated by the client – to process personal data entrusted to him or allow them to be processed by third parties.

13. Default of acceptance and lack of cooperation on the part of the client

If the client defaults in accepting the services offered by the Wirtschaftsprüfer or if the client does not provide the assistance incumbent on him pursuant to No. 3 or otherwise, the Wirtschaftsprüfer is entitled to cancel the contract immediately. The Wirtschaftsprüfer's right to compensation for additional expenses as well as for damages caused by the default or the lack of assistance is not affected, even if the Wirtschaftsprüfer does not exercise his right to cancel.

14. Remuneration

(1) In addition to his claims for fees or remuneration, the Wirtschaftsprüfer is entitled to reimbursement of his outlays: sales tax will be billed separately. He may claim appropriate advances for remuneration and reimbursement of outlays and make the rendering of his services dependent upon the complete satisfaction of his claims. Multiple clients awarding engagements are jointly and severally liable.

(2) Any set off against the Wirtschaftsprüfer's claims for remuneration and reimbursement of outlays is permitted only for undisputed claims or claims determined to be legally valid.

15. Retention and return of supporting documentation and records

(1) The Wirtschaftsprüfer retains, for seven years, the supporting documents and records in connection with the completion of the engagement – that had been provided to him and that he has prepared himself – as well as the correspondence with respect to the engagement.

(2) After the settlement of his claims arising from the engagement, the Wirtschaftsprüfer, upon the request of the client, must return all supporting documents and records obtained from him or for him by reason of his work on the engagement. This does not, however, apply to correspondence exchanged between the Wirtschaftsprüfer and his client and to any documents of which the client already has the original or a copy. The Wirtschaftsprüfer may prepare and retain copies or photocopies of supporting documents and records which he returns to the client.

16. Applicable law

Only German law applies to the engagement, its conduct and any claims arising therefrom.