Annual Report 2007
New Dimensions.
New Opportunities.

Brief Profile

TUI is a global player in tourism and shipping. In the tourism division, the merger with First Choice created TUI Travel PLC, one of the world's largest tourism companies. With Hapag-Lloyd, the shipping segment operates the fifth-largest container shipping company in the world. In both divisions, customers regard TUI as a top-rank provider.

The good market position occupied by the divisions and the expansion of the tourism segment with the new TUI Travel PLC in 2007 have established a secure basis for further growth across the TUI Group.

Tourism

TUI Travel PLC

TUI's tourism segment merged with the British travel group First Choice in 2007 (excluding hotel interests which were consolidated under TUI Hotels & Resorts). The result was one of the world's largest travel groups which operates as TUI Travel PLC. The new company is headquartered in Great Britain and is listed on the London Stock Exchange. With a 51 per cent stake as per 31 December 2007, TUI AG was the majority shareholder. As a result, the company was fully consolidated in the Group's annual financial statements. The new TUI Travel PLC's business is made up of the four sectors – Mainstream Holidays, Specialist Holidays, Activity Holidays and Online Destination Services. With around 30 million customers, TUI Travel PLC operates in 180 countries worldwide.

TUI Hotels & Resorts

The TUI Group's hotel activities are bundled in TUI Hotels & Resorts. With its 237 hotels and over 144,000 beds, TUI Hotels & Resorts is Europe's largest holiday hotel provider. The portfolio – with its focus on 4-star hotels – includes such brands as Riu, Robinson and Grecotel. This business is operated directly by TUI AG.

Shipping

Container shipping

The Hamburg-based shipping company Hapag-Lloyd provides container line transport and logistics services for container transport in over 100 countries. Since the 2005 acquisition of CP Ships, the Canadian container line, the company has become one of the world's five largest lines. The fleet is made up of 141 container ships with a total transport capacity of 493 000 standard containers. The ships operate globally in the Far East, Trans-Pacific, Atlantic, Latin America and Australasia.

Cruises

Hapag-Lloyd Kreuzfahrten is one of the leading providers of premium and luxury cruises in the German-speaking area. Expedition cruises are another important focus. The fleet flagship is the 'Europa.'

Royal Caribbean Cruises Ltd. and TUI AG announced in 2007 to launch a joint venture serving the German cruises market. The new company, TUI Cruises will begin service with one ship in 2009.

7.0M
Hapag-Lloyd

TUI Group in Figures

TUI Group in Figures

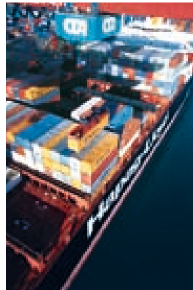
		2007	2006	Var. %
Turnover by divisions				
Tourism	€ mill	15,638	14,085	+ 11.0
Shipping	€ mill	6,202	6,254	- 0.8
Others	€ mill	26	577	- 95.6
Group	€ mill	**21,866**	**20,916**	**+ 4.5**
Earnings before interest, tax, depreciation and amortisation (EBITDA)				
Tourism	€ mill	684	779	- 12.2
Shipping	€ mill	621	212	+ 192.9
Others	€ mill	18	193	- 90.7
Group	€ mill	**1,323**	**1,184**	**+ 11.7**
Earnings by divisions (EBITA)				
Tourism	€ mill	210	388	- 45.7
Shipping	€ mill	342	- 106	n. m.
Others	€ mill	- 4	- 52	+ 91.8
Group	€ mill	**548**	**230**	**+ 137.9**
Underlying earnings by divisions (underlying EBITA)				
Tourism	€ mill	449	395	+ 13.7
Shipping	€ mill	197	89	+ 120.5
Others	€ mill	- 30	- 36	+ 17.1
Group	€ mill	**616**	**448**	**+ 37.4**
Net profit for the year	€ mill	**236**	**- 843**	**n. m.**
Earnings per share	€	0.61	- 3.65	n. m.
Assets				
Non-current assets	€ mill	11,507	10,157	+ 13.3
Current assets	€ mill	4,797	2,873	+ 67.0
Total assets	€ mill	**16,304**	**13,030**	**+ 25.1**
Equity and liabilities				
Equity	€ mill	3,124	3,007	+ 3.9
Non-current liabilities	€ mill	6,806	5,259	+ 29.4
Current liabilities	€ mill	6,374	4,764	+ 33.8
Total equity and liabilities	€ mill	**16,304**	**13,030**	**+ 25.1**
Equity ratio	%	**19.2**	**23.1**	**+ 3.9**
Cash flow from operating activities	€ mill	**569**	**467**	**+ 21.7**
Capital expenditure	€ mill	**1,116**	**757**	**+ 47.4**
Net debt	€ mill	**3,926**	**3,211**	**+ 22.3**
Employees	31 Dec	**68,521**	**53,930**	**+ 27.1**

Content

4 To our Shareholders

26 Management Report

28 Business and Operating Environment
40 Group Turnover and Earnings
47 Tourism
56 Shipping
63 Earnings
68 Net Assets
73 Financial Position
84 Report on Subsequent Events
85 Risk Report
92 Remuneration Report
98 Research and Development
100 Human Resources
102 Environmental Protection
104 Report on Expected Developments



108 Corporate Governance

110 Corporate Governance Report
114 Supervisory Board
117 Executive Board
118 Report of the Supervisory Board
123 TUI Share
128 TUI Group in Figures
129 Substainable Development

136 Financial Statements

138 Consolidated Profit and Loss Statement
139 Consolidated Balance Sheet
140 Statement of Recognised Income and Expenses
140 Cash Flow Statement

141 Notes

141 Notes on the Principles and Methods
162 Segment Reporting
171 Notes on the Consolidated Profit and Loss Statement
181 Notes on the Consolidated Balance Sheet
223 Major Shareholdings
224 Notes on the Cash Flow Statement
226 Other Notes
229 Responsibility Statement by Management
230 Auditor's Report

Dr. Michael Frenzel,
Chairman of the Executive Board

Letter to our Shareholders

Ladies and Gentlemen,

in 2007, our tourism and shipping divisions recorded a positive business trend as of the middle of the year. The tourism division substantially exceeded the previous year's operating result despite a difficult market environment in the first half of the year. The positive development of earnings was driven by the TUI Group's 'old' tourism sectors. Due to the seasonal nature of the business, the activities of First Choice, included in consolidation since September 2007, did not yet contribute essentially to operating profits. On the basis of its excellent productivity, the shipping division managed to translate the cyclical upswing commencing in the second half of the year into a significant increase in earnings. Consolidated earnings thus improved substantially, enabling us to resume distribution of a dividend payment of 0.25 euro per share. TUI's performance has thus been heading in the right direction.

With our tourism and shipping businesses, we are operating in markets characterised by above-average growth. Due to the merger with First Choice Holidays and following the completed integration of CP Ships, the Group is occupying a leading market position in both areas and has substantial value enhancement potential for forthcoming financial years. Our aim is therefore to further increase the value of our operations and develop our Group structure and portfolio accordingly. To this end, we already launched a number of crucial steps in 2007.

In the completed 2007 financial year, we merged our Group's tourism business with First Choice and formed the new TUI Travel PLC, strengthening our tourism business in the long term.

With the formation of TUI Travel PLC we created the structural prerequisites enabling us to further enhance the effectiveness of our package tour business and expand the high-margin specialist business. This ideal strategic fit created major growth potential. TUI Travel has defined various sets of measures to be launched in order to achieve a sustainable increase in the profitability of our business. We expect to leverage major synergies with our joint activities. In a consolidated market environment, in particular in the UK, TUI Travel PLC will benefit from sustainable cost and turnover synergies of at least 150 million British Pounds per annum due to the merger. The new constellation has generated further substantial potential since it enables us to offer specialist products on a much broader distribution platform.

TUI Hotels & Resorts will continue to expand its own hotel bed capacity in existing and prospective growth destinations and sharpen its product portfolio by means of stronger yield orientation. Apart from distribution through tour operators, the selective establishment and expansion of additional sales channels will optimise occupancy of Group-owned hotels and secure high earnings levels. One of the key elements of our hotel strategy is the implementation of the 'Tenuta di Castelfalfi' project in Tuscany. Besides holiday apartments and villas, this project is planned to comprise hotels of the Robinson and Iberotel brands.

With the establishment of TUI Cruises, in which both TUI AG and Royal Caribbean Cruises Ltd. will each hold 50 per cent of the shares, we laid the foundation for entry in the fast-growing German volume market for premium cruises in the 2007 financial year. The gratifying development of Hapag-Lloyd's existing cruise business in the completed 2007 financial year underlines the overall positive trend in this market segment.

In container shipping, the completion of the integration of CP Ships brought the significantly enlarged group back to the productivity level already achieved by Hapag-Lloyd in 2005. With markets picking up again, we are benefiting from the new constellation, as illustrated by our regained profitability, although average freight rates in 2007 were still down year-on-year. Container shipping continues to hold substantial growth potential. We intend to develop the sector further so that Hapag-Lloyd will continue to hold a leading position among the world's large container lines.

Following the realignment of our tourism business and the successful integration of CP Ships in Hapag-Lloyd Containerline our efforts over the next few months will focus on reducing Group debt and purposefully allocating investment funds. They will also entail a review of the strategic alignment of our Group portfolio.

Yours sincerely,

individually
organised
diversified
coordinated
friendly
always
complete

easy
worldwide
reliable
on the move

Individually

Peoples' expectations of a restful and invigorating holiday vary greatly. They may demand action and adventure in an extraordinary atmosphere, or pure relaxation and wellness. With our broad range of holiday tours and our various hotels, resorts and clubs we offer the entire universe of holiday experiences.

organised

Who do I wish to share the most enjoyable time of the year with? My family? With people sharing my interests? Singles or so called Best Agers? The answers to this question may vary significantly. Moreover, after choosing the right 'travel mates', you need a suitable travel programme. To fulfil the special wishes of our close to 30 million customers is our business and our pleasure – as it always has been.

Young

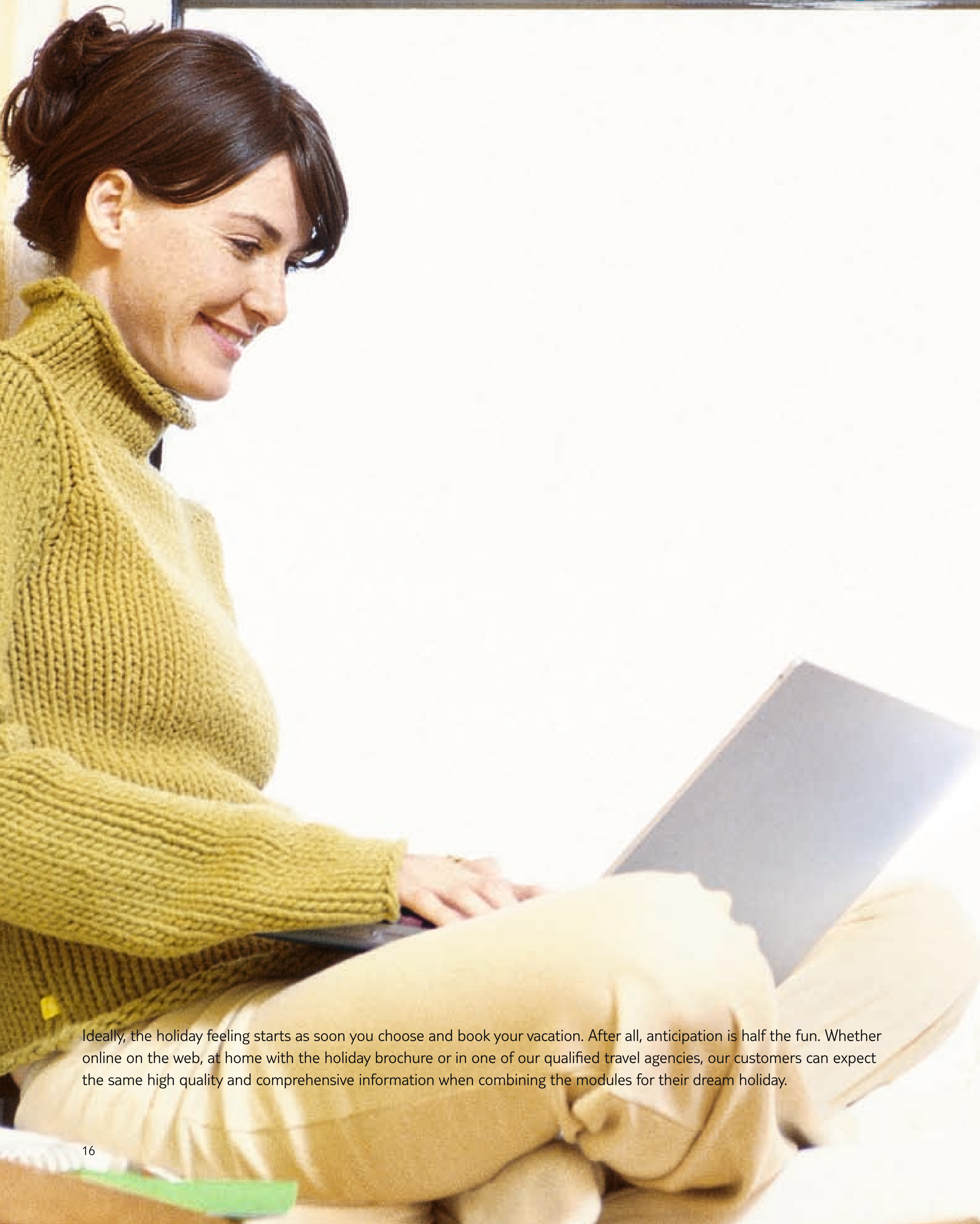
at heart

Diversified

& coordinated

The new TUI Travel PLC owns a fleet of around 160 aircraft, that connect more than 180 airports. Our efficient fleet and flight planning system covers all key holiday destinations. Incoming agencies in 50 countries simplify the local organisation. Holiday-makers may for instance venture out individually in a rented car or reach their destinations by means of well-organised transfers.

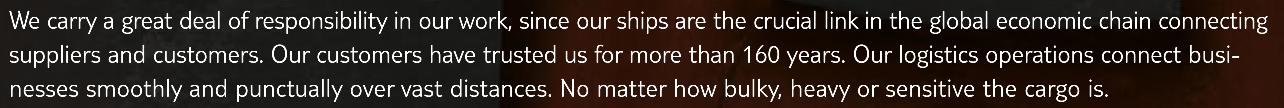
Easy



Ideally, the holiday feeling starts as soon you choose and book your vacation. After all, anticipation is half the fun. Whether online on the web, at home with the holiday brochure or in one of our qualified travel agencies, our customers can expect the same high quality and comprehensive information when combining the modules for their dream holiday.

going

Always



We carry a great deal of responsibility in our work, since our ships are the crucial link in the global economic chain connecting suppliers and customers. Our customers have trusted us for more than 160 years. Our logistics operations connect businesses smoothly and punctually over vast distances. No matter how bulky, heavy or sensitive the cargo is.

reliable

Full

Sales executives and stowage planners, sensitive cargo experts or marine personnel: a large number of highly specialised minds are essential for shipping goods through different climate zones across the oceans. Moreover, regulations governing worldwide transportation keep changing and therefore processes have to be constantly updated. In our sector we set the mark for excellence in all aspects of the handling and shipping of cargo.

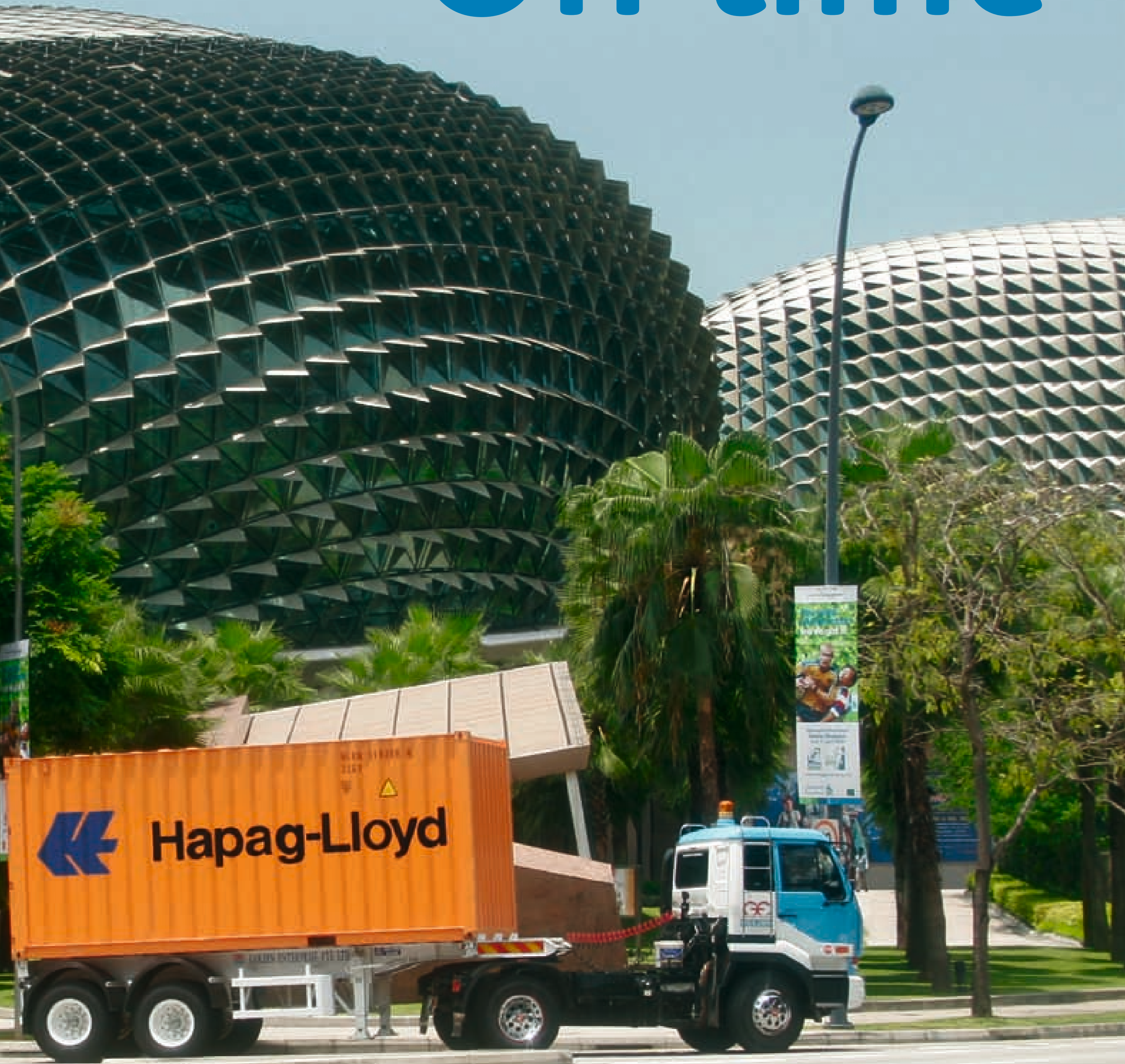
determination

Worldwide

The number of containers shipped across the oceans will continue to rise. Growth in container transport is expected to increase around 40 per cent over the next five years. Hapag-Lloyd's diversified fleet currently comprises over 140 container vessels. In order to participate in the expected market growth and provide international customers with the necessary capacity we are primarily investing in large ship categories. By 2011, Hapag-Lloyd will expand its fleet by 16 additional container vessels equipped with state-of-the-art technology.

on the move

On time



Container transportation does not end in a port. Our 77 liner services form the basis for our worldwide door-to-door transport. By constantly expanding and optimising our operations we are able to ensure fast and flexible connections. Our IT system, the most sophisticated one in our industry, allows us to provide real-time information on all services related to cargo anywhere in the world. Due to our global presence we offer customers around the world easy access to a local branch office where they find Hapag-Lloyd experts with excellent knowledge of the local requirements.

on the spot

Management Report

active
worldwide
dynamic
organised

28 Business and Operating Environment
40 Group Turnover and Earnings
47 Tourism
56 Shipping
63 Earnings
68 Net Assets
73 Financial Position
84 Report on Subsequent Events
85 Risk Report
92 Remuneration Report
98 Research and Development
100 Human Resources
102 Environmental Protection
104 Report on Expected Developments

2007 – A successful year. Positive development in the core businesses. Tourism boosted by the formation of TUI Travel PLC. Significant performance increase in container shipping.

2007 – the year that was

Positive development in the core businesses
Both divisions of the Group, tourism and shipping, developed positive by during the last financial year. Following a slow start in the first half of the year, tourism achieved a year-on-year increase in operating earnings due to a favourable performance in the third and fourth quarters. Business developments in the second half of 2007 reflected the continued recovery of the tourism markets. Following the difficulties experienced in 2006, shipping also recorded a significant improvement in earnings in 2007, benefiting from the realisation of synergies from the completion of the integration of CP Ships, the container line acquired in 2005, and the considerable recovery in freight rates in the second half of the year 2007.

At € 15.6 billion, turnover by the tourism division was 11.0% up year-on-year. Underlying earnings adjusted for one-off effects (underlying EBITA by division) grew by 13.7% to € 449 million. At € 6.2 billion turnover in the shipping division fell slightly short of 2006 levels due to exchange rate movements, while underlying earnings rose by 120.5% to € 197 million.

The turnover by the continuing operations comprises the core businesses tourism and shipping as well as central operations. It increased overall by 6.6% to € 21.9 billion. Underlying earnings adjusted for one-off effects (underlying EBITA by division) climbed 47.2% to € 616 million.

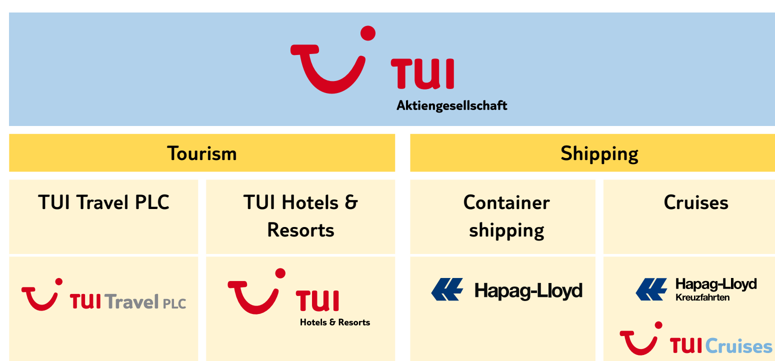
Merger between the TUI Group's tourism division and the British First Choice Holidays PLC
On 19 March 2007, TUI AG announced the merger between TUI's tourism division – excluding the hotel companies pooled under TUI Hotels & Resorts – and First Choice Holidays PLC to form TUI Travel PLC. Following the approval of the merger by the EU Commission on 4 June 2007, the prospectus of TUI Travel PLC was published on 29 June 2007. On 25 July 2007, the shareholders of First Choice Holidays PLC approved the merger, which was therefore completed on 3 September 2007 with the listing and the first trading day of TUI Travel PLC shares at the London Stock Exchange. The new company is based in the UK. At 51 per cent, TUI AG held at the balance sheet date the majority of shares in the company. TUI Travel PLC is fully comprised in TUI AG's consolidated financial statements.

The TUI Group expects the merger to generate sustainable annual synergies worth GBP 150 million. Given the further expansion of the market leading position in the Mainstream Holidays Sector and at the same time the

strengthening of the high-margin specialist business, the new TUI Travel PLC has additionally expanded the Group's tourism division.

Expansion of cruise activities
The Letter of Intent to form TUI Cruises, in which TUI AG and Royal Caribbean Cruises Ltd. will each hold a 50 per cent interest, paved the way for entry into the German volume market for premium cruises in the 2007 financial year. The formation of the new company, TUI Cruises, is still subject to approval by the competent anti-trust authorities. TUI Cruises will begin service with one ship in 2009. With one new build per year planned for 2011 and 2012, the fleet will continue to grow.

Group structure



Following the completion in 2006 of the realignment of TUI as a pure services group embracing the two pillars tourism and shipping, the tourism was further supported in the completed 2007 financial year with the acquisition of First Choice Holidays PLC. The tourism division consists of TUI Travel PLC and TUI Hotels & Resorts. The shipping division consists of container shipping and cruise operations. Tourism and shipping, the core businesses, continue to account for around 70% and 30%, respectively, of Group turnover.

TUI AG

Group parent company

TUI AG is the Group's parent company headquartered in Hanover. Via its affiliates, it holds direct or indirect interests – usually majority-interests – in the main Group companies conducting the Group's operative business in the individual countries. Overall, TUI AG's group of consolidated companies comprised 729 direct and indirect subsidiaries at the balance sheet date, 46 of which were based in Germany and 683 abroad. A further 17 associated companies and 33 joint ventures were included in TUI AG's consolidated financial statements on the basis of at equity measurement.

Organisation and management

TUI AG is a stock corporation under German law, whose basic principle is dual management by two boards, the Executive Board and the Supervisory Board. The Executive and Supervisory Boards cooperate closely on a basis of trust in controlling and monitoring the Company. The Executive Board is responsible for the overall management of the Company.

The appointment and dismissal of Board members is based on sections 84 f. of the German Stock Corporation Act in combination with section 31 of the German Co-Determination Act. Amendments to the Articles of Association are effected on the basis of the provisions of sections 179 ff. of the German Stock Corporation Act in combination with section 24 of TUI AG's Articles of Association.

Board structure

As at the balance sheet date, the Executive Board of TUI AG consisted of six members: the CEO and five other Board members in charge of Finance, Controlling, Human Resources/Legal, Tourism and Shipping.

TUI Travel PLC

In the 2007 financial year, the focus of activities in the tourism division was on the establishment of TUI Travel PLC, formed by the merger of the TUI Group's tourism division with the British First Choice Holidays PLC. TUI AG contributed all distribution and tour operator activities of source markets Central Europe, Northern Europe and Western Europe and the associated airline activities in TUI Travel PLC. In addition, the Group's incoming agencies previously included in the destinations sector were transferred to the new TUI Travel PLC. TUI Travel PLC operates in 180 countries worldwide and serves more than 30 million customers.

TUI Travel PLC is headquartered in the UK and has been listed on the London Stock Exchange since 3 September 2007. As at the balance sheet date, TUI AG held 51 per cent, i.e. the majority, of shares in the company. The new company and its subsidiaries are fully comprised in the TUI Group's financial statements.

TUI Travel PLC's business is structured into four sectors: Mainstream Holidays, Specialist Holidays, Activity Holidays and Online Destination Services.

Mainstream Holidays Sector

Mainstream is the largest sector within TUI Travel PLC and comprises the sale of airline, accommodation and other tourism services, both as individual components and package tours. This sector pools several vertically integrated tour operators such as Thomson, First Choice and TUI Deutschland. Activities cover the three source markets Central Europe, Northern Europe and Western Europe.

Specialist Holidays Sector

Specialist comprises three segments: Destination, Premium and Lifestages. The Destination Segment covers eleven source markets whereby the products on offer focus on specific destinations. The Premium Segment covers five brands specialised in premium leisure travel experiences in Europe, Asia and the Caribbean. The Lifestages Segment offers tours specifically tailored to suit particular customer demographics.

Activity Sector

Activity comprises a large number of tour operators for activity-oriented leisure travel in three segments: Marine, Adventure and Experiential. The Marine Segment, for instance, offers products by the leading charter yacht providers, while the Experiential Segment offers escorted cultural and luxury travel experiences.

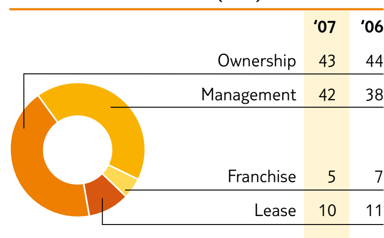
Online Destination Services Sector

Online Destination Services consists of incoming agencies that provide services such as guest assistance, transfers, excursions and roundtrips. This sector also sells accommodation online to both consumers and businesses, and provides specialised services to cruise lines and the management of meetings and incentives activities for corporate clients.

TUI Hotels & Resorts

TUI Hotels & Resorts is Europe's largest holiday-hotel provider based in Hanover. It includes hotel companies held with majority interests, joint ventures with local partners, companies, held as a financial interest and hotels with management contracts. TUI Hotels & Resorts links tour operators and hotel partners and thus ensures the strong positioning of the hotel brands within the Group and compared with the competition. Apart from strategic planning and operative support, it also coordinates marketing and distribution activities as well as ecological and social commitment of the hotel companies to coordinate sustainable tourism development.

Financing structure
TUI Hotels & Resorts (in %)



	'07	'06
Ownership	43	44
Management	42	38
Franchise	5	7
Lease	10	11

In 2007, the TUI Hotels & Resorts sector comprised a total of 237 hotels with a total of 144,470 beds. The year-on-year change was mainly attributable to the transfer of the Nordotel, Atlantica and Gran Resort companies and their hotel facilities to TUI Travel PLC. 199 of the 237 hotels were four- or five-stars. 43% were owned by the respective hotel company, while 42% were operated within management contracts, 10% were leased. For 5% of the resorts franchise agreements consisted.

TUI Hotels & Resorts

Hotel brand	3-stars	4-stars	5-stars	Total Hotels	Beds	Main sites
Riu	10	66	27	103	73,437	Spain, Caribbean
Magic Life	6	11	0	17	14,405	Turkey, Tunisia, Egypt
Grupotel	16	16	2	34	13,468	Balearic Islands
Iberotel	0	13	8	21	12,086	Egypt, Turkey
Robinson	0	17	3	20	11,114	Spain, Greece, Turkey
Grecotel	0	11	8	19	9,129	Greece
Dorfhotel	0	4	0	4	2,113	Germany, Austria
Other hotel companies	6	12	1	19	8,718	–
Total	**38**	**150**	**49**	**237**	**144,470**	

Riu is the largest hotel company in the TUI Hotels & Resorts portfolio. The Majorca-based family enterprise stands for a high level of professionalism and excellent service. Most of the hotels are in the premium and comfort segments and are located in Spain and the Caribbean.

Magic Life is the all-inclusive TUI Hotels & Resorts club brand based in Austria. It offers a holiday concept for families with children with a value for money and entertainment programmes in an international environment. Most of the facilities are in the comfort segment and are located in Turkey, Tunisia and Egypt.

The Majorcan hotel group Grupotel is one of the most important in the Balearics, offering apartments, aparthotels and also luxury resorts. Most of the facilities are placed in the comfort segment.

Iberotel hotels offer a high level of hotel comfort and excellent restaurants. Most of the premium hotels are located in Egypt and Turkey. They offer top-quality products due to compliance with the highest quality, safety and environmental standards.

Robinson, the quality and market leader in the premium club holiday segment, is characterised by its professional sport, entertainment and event portfolio. Moreover, the clubs offer high-quality hotel services, comprehensive service and a generous architecture. Most of the clubs are located in Greece, Spain and Turkey and also in Switzerland and Austria. The hotels also meet ambitious environmental standards.

Grecotel is a leading premium provider among Greek hotel brands. Its concept focuses on cultural and environmental aspects. Its high-quality restaurants primarily use local agricultural products.

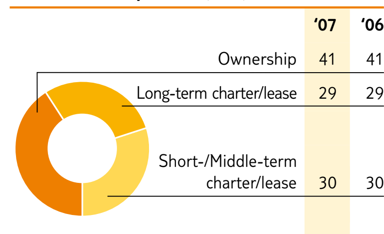
The Dorfhotels are located in the countryside of Germany and Austria. They combine the advantages of holiday apartments which are primarily focused on families with the comfort of hotels.

The 'Toscana Resort Castelfalfi' project was initiated in March 2007 with the acquisition of a plot of land in Tuscany. On eleven square kilometres of land hosting a medieval village with a church, and castle and a golf course, tourism resorts are planned to be built following the redevelopment of the existing site. Alongside holiday apartments and villas, Robinson and Iberotel hotel arrangements are projected. The focus is also on sustainability and environmental compatibility. The project will embrace the use of renewable energies and the supply of agricultural products grown on its own farms for the customers.

Container shipping

The Hamburg-based Hapag-Lloyd AG is the world's fifth largest container line. TUI AG holds 100 per cent of the shares in Hapag-Lloyd AG.

Financing structure
Container ship fleet (in %)



	'07	'06
Ownership	41	41
Long-term charter/lease	29	29
Short-/Middle-term charter/lease	30	30

Hapag-Lloyd's fleet included a total of 141 container ships as at 31 December 2007, 58 of which were owned by the Group, while 41 ships were operated within longer-term leasing and charter agreements. In addition, Hapag-Lloyd operated 42 ships chartered on short-term agreements. The average age of the fleet was 8.1 years. In the last financial year, five ships with a total capacity of around 35,000 standard containers (TEU) were delivered whereof two ships were operated in long-term charter. The order book for new ships has two deliveries each for 2008 and 2009 and a further six each for 2010 and 2011. Each new ship will have a capacity of 8,750 TEU.

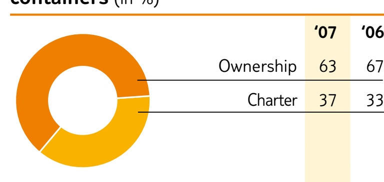
The table below provides an overview of Hapag-Lloyd's container ships, listed according to size groups and indicating capacity and average age for each category.

Container ship fleet

Slot capacity in TEU	Total number	Average age	Capacity TEU
Up to 2,300	47	15.0	81,000
2,300 – 4,000	39	14.9	113,000
4,000 – 6,000	39	7.3	173,000
over 6,000	16	3.0	126,000
Total	**141**	**8.1**	**493,000**

As at 31 December 2007

Financing structure containers (in %)



	'07	'06
Ownership	63	67
Charter	37	33

In addition, Hapag-Lloyd had containers with a capacity of 1.1 million TEU as at 31 December 2007. Of which at around 61% were containers with the standard size of 40 feet or special sizes and 39% of the remaining were 20 feet containers. Besides standard and reefer containers, it included special containers such as open-top containers with tarpaulin, flatrack containers without side panels or roof or platform container for oversize cargo. Around 63% of the containers were owned by Hapag-Lloyd while the remaining containers were chartered.

Container stock

TEU	Capacity
Standard containers	990,000
Reefer containers	68,000
Special containers	57,000
Total	**1,115,000**

As at 31 December 2007

The container ships are used in various trade lanes, each comprising different routes (line services) linking different harbours. Hapag-Lloyd operates five trade lanes.

Far East

The Far East trade lane comprises transportation between Europe and Asia. This trade lane covers 21 routes, the majority of which connect Europe with Asian countries such as China, Japan and India. Further routes link Northern and Southern Europe, as well as Northern Europe and Africa. This trade lane is foremost characterised by the European transport operations involving Asian emerging economies.

Trans-Pacific

The Trans-Pacific trade lane serves to handle goods transports between North America and Asia. Hapag-Lloyd operates 13 routes in this trade lane, the majority of which connect North American westcoast and Asian eastcoast.

Atlantic

The Atlantic trade lane with its 16 routes connecting Europe with North America again handled as in 2006 the largest transport volume. The routes connect North America and Northern Europe. Further routes link North America and the Mediterranean region and one route connects North America and Africa.

Latin America

The Latin America trade lane connects South America with North America and Europe. One of the ten routes also connects various harbours within South America.

Australasia

The 17 routes of the Australasia trade lane serve to transport goods between Australia and Asia. They include intra-Asian routes, which had the largest portion of the freight volume, and routes which connect Australia with all continents, except Africa.

Cruises

With its four cruise ships in the premium and luxury categories, Hapag-Lloyd Kreuzfahrten GmbH formed the core of the TUI Group's cruise operations in the 2007 financial year. Its product portfolio focuses on lifestyle and expedition cruises for the German-speaking market. Its flagship is the five-star-plus vessel 'Europa'. This rating was awarded by the Berlitz Cruise Guide for the seventh time in succession. It is the only ship in the world to be hold this rating. The 'Europa' primarily cruises on world tours. The 'Columbus', a three-star-plus vessel, also cruises the world's seven seas; moreover, it is the only ocean-going cruise liner capable of cruising the Great Lakes in North America. The 'Hanseatic' is used for expedition cruises to the Arctic and Antarctic. In 2007, it again completed a successful tour through the Northwest Passage. It is the world's only five-star passenger vessel with the highest Arctic class. The 'Bremen', a four-star vessel – also awarded the highest Arctic class – travels to similar destinations.

In the financial year 2007, the way for entry into the German volume market for premium cruises was paved by the planned formation of the company TUI Cruises. As from spring 2009, TUI Cruises will offer classic cruises in the 4-star segment in the German-speaking market, jointly with its partner company Royal Caribbean.

Business activities

Tourism

Market

Total consumer expenditure in the worldwide travel and tourism market is estimated to have grown by 3.4% in 2007 (source: WTTC report, 2007). The largest source markets of TUI Travel PLC grew by 2.6%. Over recent years, customer requirements and thus markets have undergone structural changes. Customers demand greater flexibility and wider choice, and consider their holidays as an individual experience. Accordingly, product portfolios increasingly include modular tours. The market for low-cost airline products is also growing. The large choice on the internet ensures transparency, and many customers select and book their tour independently on the web.

In the 2007 financial year, the market for business and leisure hotels developed dynamically, following a consolidation phase. Several hotel chains significantly expanded their activities, investing above all in the luxury segment but also in the budget segment. In terms of destinations, hotel capacity was expanded in particular in Europe, but Mexico, the Caribbean, the United Arab Emirates and Asia also recorded growth in bed capacity. Average prices for hotel rooms only rose slightly year-on-year, with occupancy rates up year-on-year and in some cases showing significant improvements.

Competition

Despite the consolidation in the European tourism industry in 2007 through the merger between Thomas Cook and MyTravel to create Thomas Cook Group PLC, and the merger of TUI and First Choice to create TUI Travel PLC, competition in the tourism market remains strongly diversified. Key competitors range from tour operators with integrated or non-integrated business models to online providers, hotel companies as well as scheduled and low-cost airlines. TUI Travel PLC is the world's largest integrated tour operator, with Thomas Cook ranking second. Other key competitors are the Swiss Kuoni Group, the British Holidaybreak PLC and the tourism division of the German REWE Group.

The competitive environment in the TUI Hotels & Resorts market is characterised by a growing popularity for the all-inclusive concept and a continuing trend toward developing golf, spa, wellness and health products. Here the customer's sensitivity for environmental issues continues to play an important role. TUI Hotels & Resorts ensures high customer satisfaction through the development of source market specific projects to meet customers' demand.

Business model

TUI Travel PLC offers its customers a large product portfolio, ranging from differentiated, in some cases exclusive, package tours to a portfolio of specialist products. It is structured into the Mainstream, Specialist, Activity and Online Destination Services Sectors, each offering different products. The main part of the business is the Mainstream Sector. This covers all package tour activities from distribution to tour operating and finally the airline. The sector is made up of several integrated tourism groups each with a focus on source markets. The customer is offered flexibility and choice through a wide variety of exclusive and differentiated products in all four sectors, sold via various distribution channels including the internet. A strong market position leads to economies of scale, which, for the most part, are exploited. At the same time, utilisation risks are minimised through specific marketing activities via 170 established brands and by implementing strict capacity management.

TUI Hotels & Resorts will continue to grow its own hotel capacity in existing and potential growth destinations, whilst at the same time streamlining its product range. Besides distribution via the tour operators, the focus on building and developing additional distribution channels will optimise utilisation of the Group's own hotels, not only in the low season, and secure high results.

Strategy

In the wake of the market-related strengthening of the tourism division through the formation of the new TUI Travel PLC in 2007 and the structural change of the overall tourism market, the following key strategies have been defined:

- realisation of the identified sustainable integration and synergy benefits of GBP 150 million p. a. from the merger between TUI's tourism division and First Choice Holidays PLC.
- increase in the share of differentiated holiday products and further strengthening of direct sales through the internet.

- expansion and strengthening of the high-margin, specialist tour operating business.
- reviewing of the capital-intensive airline sector with regard to generate a business adequate and flexible fleet and financing structure.
- focussing on a differentiated hotel portfolio with high profits in the TUI Hotels & Resorts sector.

Shipping

Market

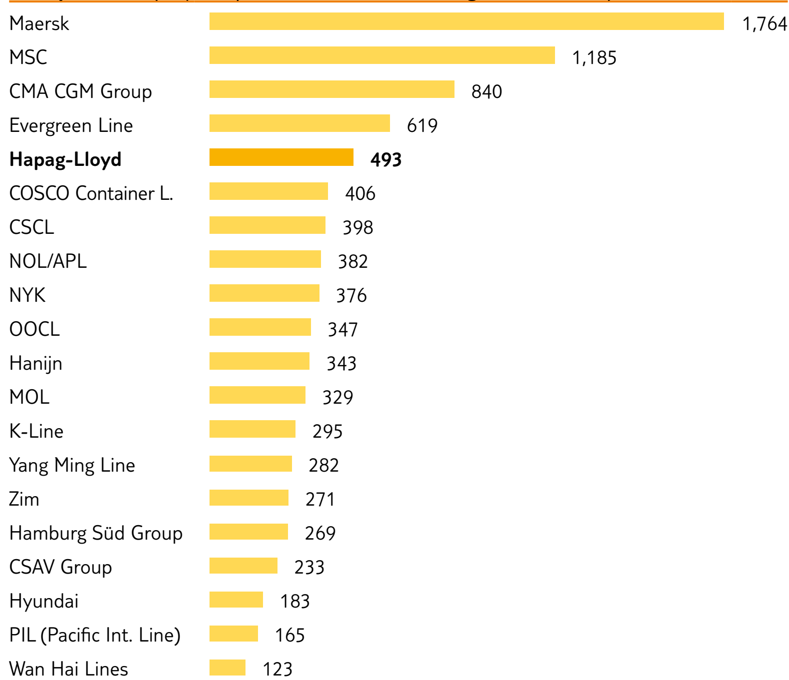
Globalisation is reflected in the market development of container shipping. The increase in world trade, the ongoing shift of production from the west to the east but also the disproportionate economic growth in the eastern Asian emerging economies ensured high transport volumes, in particular on the routes to and from Asia. In addition, the containerisation of cargo continued to increase. Following a worldwide transport volume of 104 million TEU in 2006, this volume grew by 8% to more than 112 million TEU in 2007 (source: Global Insight, September 2007).

In the shipping sector the high level of the oil-price dependent bunker costs caused measures to reduce fuel consumption. As higher speeds of container ships cause a disproportionate consumption of bunker, journey speed has been reduced on several routes. In order to offer the same departure frequency, further container ships have to be brought into service.

Container shipping routes are broken down into trade lanes. The important trade lanes developed as follows in the year 2007: Intra-Asian transportation accounted for the largest portion transportation volume with around 24 million TEU in 2007, up around 7% year-on-year. The strongest growth of around 15% to nearly 20 million TEU was generated on the Europe/Far East routes. At around 19 million TEU and growth of 5%, the Trans-Pacific trade lane ranked next. Transport volumes in the Atlantic trade lane connecting Europe and North America totalled around 6 million TEU. The smallest trade lane is Latin America with around 4 million TEU. Several container shipping companies have joined to form international alliances. The purpose of these consortia is the joint use of transport capacity and the coordination of departure times. As a result, the alliance members are able to offer their customers a larger number of routes and higher frequencies. Hapag-Lloyd AG is a founding member of the Grand Alliance, the world's largest container shipping consortium, and provides around 35% of the jointly used capacity.

Competition

In 2007, concentration in container shipping continued with several minor acquisitions. At a transport capacity of almost 1.8 million TEU, the Danish shipping company Maersk remained the largest container shipping line, far ahead of the number two: the Swiss Mediterranean Shipping Co. (MSC) with a transport capacity of around 1.2 million TEU. With the French CMA CGM and the Taiwanese Evergreen Line ranking third and fourth, Hapag-Lloyd followed as the world's fifth largest container shipping line with a capacity of 0.5 million TEU.



Source: Transmodal, January 2008/Own calculations

Business model

Hapag-Lloyd AG is a company operating worldwide with over 340 offices in more than 100 countries in all five continents. Hapag-Lloyd's fleet provides 77 routes in all the world's seas, serving in particular the high-volume east-west routes which mainly comprise transport between North America, Europe and Asia. Coordination of the worldwide services is facilitated by the blueprint model, in combination with a fully integrated IT network. This embraces a standardisation of business processes and their documentation. With the support of the IT network, which links all global sites in real-time, optimum control of container flows both as far as cost and earnings is concerned, can be ensured. Moreover, these components help to determine and offer customized solutions tailored to individual customer requirements. At the same time, the IT network secures the collection of information for customers but also provides details required by the harbour and customs authorities.

Besides pure maritime container transportation, Hapag-Lloyd primarily offers the organisation of door-to-door transport worldwide. The transport chain starts with the shipment of the container to a maritime port by the consignor. The container is then shipped to the destination port, and the chain ends with delivery to the place of destination. Container transportation to or from the sea ports, by rail, truck or inland waterway vessel, in particular, is carried out by subcontractors. However, Hapag-Lloyd is the principal contracting partner during the entire transport chain and offers its customers additional services such as customs clearance.

Strategy

In the shipping division, the growth strategy launched in previous years will be continued. For the next few years, average capacity expansion of 8% p. a. is planned for the container ship fleet and supported by corres-

ponding investment programmes. The growth strategy is conducted by the following strategic approaches:

- selective capacity expansion by means of investment in large ship classes.
- realisation of further efficiency benefits through an uniform fleet structure.
- use of strategic options for external growth in the wake of ongoing market consolidation.
- flexible capacity control by means of a balanced fleet funding mix between ownership/long-term charter and short-term charter.

Economic framework

General development

The world economy continued to grow, in particular in the first half of 2007. Following a slowdown in growth in the second half of the year, the International Monetary Fund (IMF) forecast international gross domestic product growth of 5.2% (IMF, World Economic Outlook, October 2007/ January 2008). The main factor curbing growth was the sub-prime crisis in the US. The Asian emerging economies continued to grow disproportionately, while growth in the US, the Eurozone and Japan fell short of the worldwide average. The economic expansion in the emerging economies went hand in hand with a significant increase in production in the industrialised countries. World trade grew at a stable rate, with an IMF forecast of 6.6% for the overall year. It thus outperforms growth of the world economy.

Development in the regions

America and Asia

While economic growth in the US still accounted for 2.3% in the first half of the year, it only stood at 1.9% for the year as a whole. This was due to the sub-prime crisis with its effects on the US real estate sector which drove demand by private households down. The low US dollar exchange rate adversely affected imports but at the same time boosted the export sector. Growth in Canada slightly exceeded the US growth rate in 2007. Japan was less strongly exposed to the finance crisis but nevertheless recorded a year-on-year slowdown in economic growth for various reasons including the weakness of the yen. Growth in the Asian emerging economies was substantially driven by China at 11.5% and India at 8.9%. In the first half of the year in particular, the Asian economy grew extraordinarily quickly. Regional growth amounted to 9.8% for the overall year, matching 2006 high levels.

Eurozone

Economic growth in the Eurozone totalled 2.5% in 2007, matching the level reported by the developed economies. In the second half of the year, growth slowed down due to the persistently high interest rate level and the repercussions of the US sub-prime crisis. In spite of the curbing effect of several overall factors, private consumption increased in the first half of the year, albeit less strongly than in 2006. This was due to the increase in the VAT rate in Germany, uncertainty surrounding the French parliamentary elections and the high oil price. In Germany, in particular, these factors – alongside price increases for certain foodstuffs – resulted in a high inflation rate which caused a slight decline in private consumption for the overall year. In the remaining Eurozone countries, in contrast, private consumption was stable for the year as a whole.

Development of the divisions

Tourism

In 2007, tourism continued the growth achieved in previous years. According to the World Tourism Organization (UNWTO, World Tourism Barometer, October 2007, January 2008), international travel activities as measured by the worldwide arrivals grew by 6.1% year-on-year. 2007 thus marks the fourth consecutive year with an actual growth rate ahead of the long-term average rates forecast by the UNWTO. The developed regions in the Eurozone and America development was stable. The business travel market grew faster than the leisure travel market in these regions. Worldwide growth was driven by Asia, the Pacific area, Africa and the Middle East with growth rates of more than 7%. A similar picture is reflected in the source markets. While most countries of the Eurozone recorded stable growth rates, many of the emerging economies reported double-digit growth rates. The high worldwide economic growth had a strong positive impact. The continued turmoil in the capital markets did not affect the performance of tourism in 2007.

Shipping

Container shipping developed positive by worldwide, despite increases in bunker prices. Worldwide transport volumes rose by around 8% to more than 112 million TEU (Global Insight, September 2007), exceeding the forecast growth of world trade. As before, the driving force behind this positive development was Asia, and here in particular China. The containerisation rate rose slightly to 71%, up from around 70% in 2006. Freight rates had declined strongly but recovered significantly in the second half of 2007, with the high-volume Europe/Far East routes recording the strongest growth. However, increasing freight rates were also accompanied by further high bunker costs. On an annual average, bunker prices grew by around 15% year-on-year to temporarily more than 500 USD/tonne. The sector was also affected by infrastructure problems as in particular congestion in the harbours of Southampton and Rotterdam. In order to save fuel and reduce emissions, the speed of container ships on European/Far Eastern routes was reduced in 2007. At the same time, new container ships were commissioned in order to keep transport frequencies stable. The Grand Alliance agreement was extended by a further ten years in 2007.

Assessment of the economic framework

Overall, economic development in the 2007 financial year largely matched the Executive Board's expectations and thus the macroeconomic framework underlying the budgeting assumptions. Both core businesses developed more restrained than expected in the first half of the year while the business environment increased significantly in the second half of the year. Both core business areas were adversely affected by the increasing high average annual aircraft fuel and bunker costs. Shipping suffered from a weak US dollar against the Euro. In tourism, consumer demand picked up substantially, in particular in the second half of the year, due to the recovery observed in the European economic area. In shipping, the overall market recovered substantially year-on-year in the wake of the overall stable growth of the world economy.

Group Turnover and Earnings

Overall, 2007 was a positive year for the TUI Group. Operating earnings by tourism and shipping, the Group's two divisions, rose year-on-year, with substantial growth in both sectors. The overall positive business development was driven by the strong performance in the second half of 2007, in particular in tourism but also in shipping.

Earnings in tourism were impacted by one-off effects concerning restructuring programmes and integration costs incurred in connection with the completed merger between TUI's tourism entities and First Choice. In order to guarantee a transparent presentation of the development of operating earnings by the divisions, a reconciliation to underlying earnings (underlying EBITA by division) is presented below, as in 2006.

The reporting methods applied in 2007 differed from those for the 2006 financial year. As for the first-time in the interim report for the third quarter of 2007 the reconciliation to underlying earnings included expenses for purchase price allocations relating to acquisitions. The additional adjustment for the effects mentioned above is the consequence of the harmonisation of operating earnings shown following the merger between First Choice and the TUI Group's tourism division. In order to ensure year-on-year comparability, underlying earnings were restated accordingly. Earnings were restated to a small extent year-on-year due to the first-time implementation of the regulations of IAS 23 ('Borrowing Costs').

Turnover and earnings by divisions

Assessment of the earnings

Underlying earnings by the tourism division rose year-on-year in both sectors, TUI Travel PLC and TUI Hotels & Resorts. The overall positive development of TUI Travel PLC earnings was mainly driven by the TUI Group's tourism entities transferred to the new company. This was as First Choice was only consolidated for the period from September to December 2007, a period where due to the nature of the business an immaterial profit is generated.

The main reasons for the year-on-year growth in earnings were the substantial recovery in the French travel market and the course of the year and in the realisation of cost reduction potentials of the restructuring programmes carried out in previous years, in particular in the British business sector.

In 2007, the shipping division also managed to leverage some synergy potential from the completed integration of CP Ships, the container line acquired in 2005. Moreover, in the second half of the year 2007, freight rates rose from their low level at the middle of the year 2007 and showed

steady growth over the months. The recovery in price levels in the course of the year went hand in hand with stable growth. The ongoing weakness of the US dollar against the euro and the continuing high level of bunker costs had an adverse effect on earnings. Overall, however, underlying earnings rose substantially year-on-year.

The development of the performance of the divisions year-on-year shows a significant increase in the profitability of the core businesses.

Overall, earnings by tourism was slightly over the Executive Board's expectations. The earnings level posted by shipping fell short of expectations, in particular due to the weakness of the US dollar and average freight rate which fell under 2006 level, but developed significant positively at the end of the year.

Development of turnover by divisions

Continuing operations

Turnover by continuing operations comprised the tourism and shipping divisions and central operations.

Turnover by divisions

€ million	2007	2006	Var. %
Tourism	15,638.5	14,085.1	+ 11.0
TUI Travel PLC	15,258.7	13,676.0	+ 11.6
TUI Hotels & Resorts	379.8	346.7	+ 9.5
Others/Consolidation	0.0	62.4	n. m.
Shipping	6,201.6	6,254.0	- 0.8
Container shipping	6,018.4	6,093.7	- 1.2
Cruises	183.2	160.3	+ 14.3
Central operations	25.5	175.5	- 85.5
Continuing operations	**21,865.6**	**20,514.6**	**+ 6.6**
Discontinuing operations	**0.0**	**401.0**	**n. m.**
Turnover by divisions	**21,865.6**	**20,915.6**	**+ 4.5**

At € 15.6 billion, turnover by tourism grew by 11.0% year-on-year. Both TUI Travel PLC and the TUI Hotels & Resorts sector increased their turnover year-on-year. Turnover by TUI Travel PLC included a merger-induced increase of € 1,342.5 million due to the first-time consolidation of the First Choice activities as of September 2007. Adjusted for the turnover of First Choice and the turnover of the divested business travel operations still included in 2006, underlying turnover for the tourism division grew by 1.9%.

In shipping, turnover declined slightly by 0.8% to € 6.2 billion despite a continued rise in transport volumes. The main reason for the slight decline in turnover year-on-year was the relative weakness of the US dollar compared with 2006 and the slight year-on-year decline in average freight rates for the year.

Turnover by central operations fell considerably year-on-year by 85.5% to € 26 million. This was primarily due to the divestment of the majority interest in Wolf GmbH, a heating and air conditioning company, in October 2006 and the resulting impact on turnover.

Discontinuing operations

In the completed 2007 financial year, the TUI Group no longer included any discontinuing operations. In 2006, turnover of € 401 million had been generated in the trading sector.

Turnover by divisions

At € 21.9 billion, total turnover by the TUI Group's divisions climbed by 4.5% year-on-year. Due to the increase in turnover caused by the inclusion of TUI Travel PLC in consolidation, the tourism division accounted for a higher proportion of turnover by the divisions at 71.5% (previous year: 67.3%). Shipping recorded a slight decline in its turnover portion to 28.4% (previous year: 29.9%), mainly due to the weakness of the US dollar. Since the Group recorded a drop in turnover by central operations due to the divestments, the corresponding turnover portion declined to 0.1% (previous year: 0.8%).

Development of earnings by divisions

Earnings by divisions (EBITA)

	Underlying EBITA by division			EBITA by division		
€ million	**2007**	**2006**	**Var. %**	**2007**	**2006**	**Var. %**
Tourism	448.9	394.7	+ 13.7	210.5	387.9	- 45.7
TUI Travel PLC	304.4	258.6	+ 17.7	103.3	150.6	- 31.4
TUI Hotels & Resorts	146.1	123.2	+ 18.6	108.8	86.6	+ 25.6
Others/Consolidation	- 1.6	12.9	n. m.	- 1.6	150.7	n. m.
Shipping	196.7	89.2	+ 120.5	341.9	- 106.4	n. m.
Container shipping	182.5	81.3	+ 124.5	327.7	- 114.3	n. m.
Cruises	14.2	7.9	+ 79.7	14.2	7.9	+ 79.7
Central operations	- 29.5	- 65.4	+ 54.9	- 4.2	- 80.7	+ 94.8
Continuing operations	**616.1**	**418.5**	**+ 47.2**	**548.2**	**200.8**	**+ 173.0**
Discontinuing operations	**0.0**	**29.8**	**n. m.**	**0.0**	**29.6**	**n. m.**
Earnings by divisions	**616.1**	**448.3**	**+ 37.4**	**548.2**	**230.4**	**+ 137.9**

Continuing operations

Earnings by the continuing operations before adjustment for one-off effects (EBITA) grew by 173.0% to € 548 million in the 2007 financial year. Earnings were impacted in particular by restructuring and integration expenses relating to the merger between First Choice and the TUI Group's tourism division. On the other hand, earnings benefited from one-off income from divestments in the shipping division.

Adjusted for the one-off effects included in earnings for the 2007 financial year, underlying operating earnings rose by 47.2% to € 616 million year-on-year.

Underlying EBITA by division: Tourism

€ million	**2007**	**2006**	**Var. %**
EBITA by division	**210.5**	**387.9**	**- 45.7**
Gains on disposals	*+ 6.8*	*- 153.3*	
Restructuring	*+ 62.4*	*+ 100.6*	
Purchase price allocation	*+ 48.8*	*–*	
Other one-off items	*+ 120.4*	*+ 59.5*	
Underlying EBITA by division	**448.9**	**394.7**	**+ 13.7**

At € 211 million, earnings by the tourism division fell by 45.7% year-on-year. The decline in earnings was mainly attributable to one-off income from the divestment of the business travel activities and the Dutch specialist tour operators in 2006 earnings. In addition, earnings included one-off expenses for business restructuring programmes and other one-off items, in particular concerning integration-related transactions, of

€ 183 million. At € 97 million, a large portion of these expenses were incurred in connection with the merger of First Choice with the TUI Group's tourism entities. A further adverse effect was caused by the current amortisations of the purchase price allocation of First Choice of € 49 million. Taking account of the above-mentioned one-off effects, underlying earnings for the 2007 financial year climbed by 13.7% to € 449 million.

Underlying earnings rose both in the new TUI Travel PLC but also in TUI Hotels & Resorts. One of the main reasons for the year-on-year rise in operating earnings was the substantial recovery in the French travel market in the course of the year and the efficiency increases from restructuring programmes implemented in previous years, in particular in the British business sector.

Underlying EBITA by division: Shipping

€ million	2007	2006	Var. %
EBITA by division	**341.9**	**- 106.4**	**n. m.**
Gains on disposals	*- 200.5*	*–*	
Restructuring	*- 1.1*	*+ 66.4*	
Purchase price allocation	*+ 82.4*	*+ 81.8*	
Other one-off items	*- 26.0*	*+ 47.4*	
Underlying EBITA by division	**196.7**	**89.2**	**+ 120.5**

At € 342 million, an increase of € 448 million, earnings by shipping rose substantially year-on-year. In the 2007 financial year, earnings comprised one-off income from the divestment of Montreal Gateway Terminals and the stake in Germanischer Lloyd of € 201 million. Additional one-off income of € 32 million arose from the revaluation of a risk position formed as at the acquisition date as part of the acquisition of CP Ships. Offset to an extent by a small amount of subsequent expenses incurred for the integration of CP Ships. On balance, an extraordinary income of € 26 million from other one-off items was accounted for.

Adjusted for the one-off effects, operating earnings by shipping grew substantially by 120.5% to € 197 million.

Underlying EBITA by division: Central operations

€ million	2007	2006	Var. %
Earnings by the holdings	- 16.6	- 175.7	90.6
Other operating areas	12.4	95.0	- 86.9
EBITA by division	**- 4.2**	**- 80.7**	**+ 94.8**
Gains on disposals	*–*	*- 34.7*	
Restructuring	*+ 6.7*	*–*	
Purchase price allocation	*–*	*–*	
Other one-off items	*- 32.0*	*+ 65.0*	
Revaluation of conversion rights	*–*	*- 15.0*	
Underlying EBITA by division	**- 29.5**	**- 65.4**	**+ 54.9**

Earnings by central operations comprised the corporate centre functions of TUI AG and the interim holdings as well as other operating areas, mainly including the Group's real estate companies.

Earnings by central operations increased by € 77 million to € - 4 million year-on-year. In the 2007 financial year, one-off expenses of € 7 million were accounted for. These expenses had been incurred due to the restructuring of TUI AG's corporate centre concerning the tourism functions performed. Against this, one-off income was generated from the reversals of provisions for clean-up operations and for a litigation of a total of € 32 million. On a like-for-like basis, underlying earnings by central operations rose by € 36 million to € - 30 million year-on-year due to a reduction in the personnel cost base of the corporate centre as a consequence of the transfer of central tourism functions to TUI Travel PLC and a positive result from the valuation of financing instruments for cash flow hedges.

Earnings by other operating areas declined in the completed financial year due to the divestment of Wolf GmbH, the last remaining industrial activity, in 2006. Earnings in 2006 had also included income from a divestment in the real estate sector (Schacht Konrad).

Discontinuing operations

In the 2007 financial year, the TUI Group no longer held any discontinuing operations. Earnings in 2006 had included earnings by discontinuing operations of € 30 million of the trading sector.

Underlying EBITA by division: Group

€ million	2007	2006	Var. %
EBITA by division	**548.2**	**230.4**	**+ 137.9**
Gains on disposals	*- 193.7*	*- 187.8*	
Restructuring	*+ 68.0*	*+ 167.0*	
Purchase price allocation	*+ 131.2*	*+ 81.8*	
Other one-off items	*+ 62.4*	*+ 171.9*	
Revaluation of conversion rights	*–*	*- 15.0*	
Underlying EBITA by division	**616.1**	**448.3**	**+ 37.4**

Earnings by divisions

Overall, the TUI Group reported in the financial year 2007, earnings by divisions before adjustment of one-off effects of € 548 million, up 137.9% year-on-year. Taking account of the one-off income and expenses outlined above, underlying earnings by divisions grew by 37.4% to € 616 million.

Value-oriented Group management

The financial objective pursued by TUI AG as a capital market-oriented company is to secure a sustainable increase in the value of the TUI Group. In order to implement value-driven management of the Group as a whole and its individual business sectors, a standardised management system has been installed, forming an integral part of uniform Group-wide controlling and planning processes.

Key management variables to enable regular value analysis are ROIC (Return On Invested Capital) and absolute value added. ROIC is compared with the division-specific cost of capital.

Cost of capital

The cost of capital is calculated as the weighted average cost of capital (WACC). The cost of equity included in WACC reflects the return expected by investors investing in TUI shares. The cost of outside capital is based on the average financing costs of the TUI Group. Generally, the cost of

capital always shows pre-tax costs, i.e. costs before corporate and investor taxes. As such the expected return corresponds to the same tax level as underlying earnings included in ROIC.

In order to account for the different return/risk profiles of the Group's sectors, corresponding division-specific pre-tax costs of capital are calculated. For the tourism division, the cost of capital was 10.3% (previous year: 8.8%). As a result of restructuring in the tourism division in 2007, the division-specific cost of capital was broken down into the two sectors TUI Travel PLC and TUI Hotels & Resorts. The cost of capital was 10.6% for the new TUI Travel PLC sector in the year 2007 and 10.0% for the TUI Hotels & Resorts sector in the reporting year. In the shipping division, the cost of capital was 9.6% (previous year: 7.9%), and for the Group as a whole, the variable stood at 9.8% (previous year: 8.5%).

Compared with the 2006 financial year, there was a substantial increase in the cost of capital of the divisions and thus the Group as a whole. The main reason for the rise in the cost level was the significant increase in the risk-free base interest rate level incorporated in the calculation, based on the interest rate level of long-term government bonds. A further factor was the increase in the market risk premium for investments involving risk of loss for the German market.

ROIC and value added

ROIC is calculated as the ratio of underlying earnings before interest, taxes and amortisation of goodwill (underlying EBITA by division) and the average tied-up interest-bearing capital (invested capital) of the segment. In line with its definition, this performance indicator does not reflect any tax or financial effects and is adjusted for one-off effects. From a Group perspective, invested capital comprises equity (including minority interests) and the balance of interest-bearing liabilities and interest-bearing assets. Furthermore the cumulated amortisations of purchase price allocations were readded to the invested capital. Besides the relative performance indicator ROIC, value added is used as an absolute value-oriented performance indicator. Value added is calculated as the product of ROIC less associated capital costs multiplied by the invested capital.

Value-oriented key figures

		Tourism		Shipping		Group
€ million	**2007[2]**	**2006**	**2007**	**2006**	**2007[2]**	**2006**
Underlying EBITA by divisions	445.7	394.7	196.7	89.2	612.9	448.3
Ø Invested capital[1]	4,350.5	5,052.2	2,750.4	2,896.1	6,973.6	7,919.6
ROIC	**10.2%**	**7.8%**	**7.2%**	**3.1%**	**8.8%**	**5.7%**
Weighted average cost of capital (WACC)	10.3%	8.8%	9.6%	7.9%	9.8%	8.5%
Value added	**- 2**	**- 50**	**- 67**	**- 140**	**- 71**	**- 225**

[1] Average value based on position at the beginning and year-end position.
[2] Adjusted for the effect of the first consolidation of First Choice.

In order to recognise the value-oriented indicators, a restatement of the increase in invested capital as at the cut-off date resulting from the first-time consolidation of the First Choice activities was effected in the consolidated financial statements. The invested capital base was reduced by the portion attributable to First Choice. At the same time, First Choice's profit

contribution recorded since September 2007 were eliminated. The restatement thus ensures comparability with the previous year's values.

Tourism

ROIC in tourism rose by 2.4 percentage points to 10.2%. In the tourism division the TUI Travel PLC sector achieved a ROIC for the financial year 2007 of 12.6% for the TUI Hotels & Resorts sector a value added of 7.5%. One of the key drivers behind the increase in ROIC was the year-on-year rise in earnings with an average declining invested capital. Overall, ROIC achieved by the tourism division was at the level of the division-specific cost of capital. This resulted in a calculated small negative economic value added of € 2 million for the 2007 financial year.

Shipping

Due to the significant increase in earnings year-on-year, ROIC in shipping grew by 4.1 percentage points to 7.2%. However, in relation to the division-specific cost of capital, negative economic value added of € 67 million arose.

Group

ROIC for the overall Group was 8.8%, a substantial year-on-year increase of 3.1 percentage points. Taking account of the cost of capital for the Group as a whole, negative value added of € 71 million arose.

Tourism

Tourism Merger with First Choice Holidays PLC and IPO of the new TUI Travel PLC completed. Increase in earnings of 14%.

The tourism division comprises TUI Travel PLC and the TUI Hotels & Resorts sector. In the financial year 2007, the TUI Group's retail, tour operating and airline activities and the incoming agencies were merged with the operations of the former First Choice Holidays PLC to form TUI Travel PLC. Following difficult market conditions in the first half of the year, the TUI Travel PLC business improved significantly in the further course of the year. As a result, underlying earnings before profit contribution from the former First Choice Holidays PLC businesses included since September, rose in 2007. The TUI Hotels & Resorts sector again benefited from the sustained growth of the Riu Group in 2007.

Turnover and earnings in tourism

Tourism – Key figures

€ million	**2007**	**2006**	**Var. %**
Turnover	**15,638.5**	**14,085.1**	**+ 11.0**
Segment turnover	**15,664.5**	**14,121.7**	**+ 10.9**
Cost of sales	14,444.8	13,104.2	+ 10.2
Gross profit	**1,219.7**	**1,017.5**	**+ 19.9**
Administrative expenses	1,088.3	876.9	+ 24.1
Other income/expenses	40.1	204.3	- 80.4
Result from companies measured at equity	39.0	43.0	- 9.3
EBITA by division	**210.5**	**387.9**	**- 45.7**
Gains on disposals	*+ 6.8*	*- 153.3*	
Restructuring	*+ 62.4*	*+ 100.6*	
Purchase price allocation	*+ 48.8*	*–*	
Other one-off items	*+ 120.4*	*+ 59.5*	
Underlying EBITA by division	**448.9**	**394.7**	**+ 13.7**
Investments	531.1	547.7	- 3.0
Headcount (31 Dec)	59,832	44,409	+ 34.7

In the financial year under review the tourism division turnover climbed 11.0% year-on-year to € 15.6 billion. The first-time consolidation of First Choice generated a substantial year-on-year increase in turnover. Adjusted for this effect as well as for the pro-rated turnover of the divested business travel activities comprised in 2006, turnover grew by 1.9%.

Turnover was netted with the cost of sales. The latter accounted for € 14.4 billion, up 10.2%. In the year 2007, gross profit being the difference between turnover and the cost of sales totalled € 1,220 million (previous year: € 1,018 million), up 19.9%.

Administrative expenses comprised expenses not directly caused by the realisation of turnover, e.g. expenses for general management functions.

The cost increase in 2007 year-on-year was caused by the first-time consolidation of First Choice.

Other income and other expenses primarily comprised profits or losses from the sale of fixed assets. The difference between other income and other expenses declined by € 164 million to € 40 million due to the gain on disposal included in the earnings year-on-year from the divestment of the business travel activities.

The result from companies measured at equity comprised the proportionate profit for the year of the associated companies and joint ventures. At € 39 million, it declined by 9.3% in 2007 year-on-year. The profit contribution resulted mainly from the companies measured at equity in TUI Hotels & Resorts and Online Destination Services within TUI Travel PLC.

Earnings by the tourism division totalled € 211 million (previous year: € 388 million). The decline in earnings was partly attributable to the inclusion of one-off income from the divestment of the business travel operations in 2006. On the other hand, earnings in 2007 were impacted by restructuring costs and the completed amortisation of assets of purchase price allocations which arose in the wake of the acquisition of First Choice. Adjusted for one-off effects, underlying operating earnings by the tourism division totalled € 449 million, up 13.7% year-on-year. TUI Travel PLC contributed € 304 million to these earnings, with TUI Hotels & Resorts sector accounting for € 146 million. Underlying earnings of TUI Travel PLC included earnings of € 3 million for the First Choice sectors, consolidated for the first time as of September 2007.

TUI Travel PLC

TUI Travel PLC – Key figures

€ million	2007	2006	Var. %
Turnover	15,258.7	13,676.0	+ 11.6
EBITA by division	**103.3**	**150.6**	**- 31.4**
Gains on disposals	*+ 6.8*	*- 12.8*	
Restructuring	*+ 62.4*	*+ 97.9*	
Purchase price allocation	*+ 48.8*	*–*	
Other one-off items	*+ 83.1*	*+ 22.9*	
Underlying EBITA by division	**304.4**	**258.6**	**+ 17.7**
Investments	220.9	361.8	- 38.9
Headcount (31 Dec)	47,705	33,696	+ 41.6

Turnover and earnings

Turnover by TUI Travel PLC grew by € 1.6 billion to € 15.3 billion in 2007, primarily due to the first-time consolidation of First Choice operations. The adjusted turnover rose by 1.8%.

Earnings by TUI Travel PLC decreased by 31.4% year-on-year to € 103 million in 2007. The decline in earnings was attributable to the inclusion of the one-off income from the divestment of the business travel activities in 2006. Moreover, earnings in 2007 included in particular charges from the merger with First Choice.

Earnings in 2007 comprised one-off effects resulting from:

- ongoing restructuring programmes of € 28 million.
- expenses for one-off items of € 27 million, above all including one-off costs for the re-branding of the new brand TUIfly.com of € 13 million and one-off expenses resulting from an increase in air passenger duties in the UK which could not be passed on to passengers of € 10 million.
- costs associated with the merger between First Choice and TUI's tourism division of a total of € 146 million, including gains on disposals of € 7 million, restructuring costs of € 34 million, purchase price allocations of € 49 million and other one-off costs regarding the integration of € 56 million.

Adjusted for these one-off effects, TUI Travel PLC posted underlying earnings of € 304 million, an increase of € 46 million on 2006 on a like-for-like basis. These earnings included a profit contribution of € 3 million by the First Choice sectors consolidated for the first time as of September 2007. The increase in underlying earnings adjusted for the first-time consolidation of First Choice and the one-off effects was mainly attributable to the successful restructuring programmes in the UK and France and the recovery of the French travel market. In the german market the performance of the flight activities had an adverse effect.

Mainstream

Mainstream Holidays is the largest sector within TUI Travel PLC, selling flight, accommodation and other tourism services in the three source markets Central Europe, Northern Europe and Western Europe.

Customer numbers TUI Travel PLC Mainstream

'000	2007	2006	Var. %
Central Europe	11,590	10,542	+ 9.9
Northern Europe	7,742	6,999	+ 10.6
of which First Choice Holidays[1]	(764)	–	–
Western Europe	4,632	4,389	+ 5.5
Total	**23,963**	**21,930**	**+ 9.3**

[1] as from 3 September 2007

Central Europe

In source market Central Europe (Germany, Austria, Switzerland and airline TUIfly.com) customer volumes grew by 9.9% in the 2007 financial year. This growth was mainly attributable to the tour operators of TUI Deutschland and the seat-only business of TUIfly.com. The business volume growth in Germany also generated an increase in turnover in source market Central Europe.

Despite an overall positive development of bookings in the 2007 summer season, overall source market Central Europe did not reach the strong 2006 performance due to the difficult environment in the German flight market. The main reason for the decline in earnings was the slight reduction in the load factor in the airlines business.

Northern Europe

In source market Northern Europe (UK, Ireland, Nordic countries and the airlines Thomsonfly, TUIfly Nordic and First Choice Airways) customer

volumes grew partly due to the first-time consolidation of First Choice's UK Mainstream business since September 2007 in a difficult market environment. Adjusted for this special effect, guest numbers were in line with 2006. Growth in Thomsonfly's seat-only business and the Nordic countries was offset by decreases in UK tour operations. Adjusted for the consolidation of First Choice's UK Mainstream business for four months period in 2007, turnover declined slightly year-on-year. The Irish tour operator Budget Travel is included until the date of acquisition by the Icelandic company Primera Travel Group in October 2007. The sale was made in order to comply with anti-trust rules in relation to the merger between TUI's tourism division and First Choice Holidays PLC.

Due to the success of the restructuring programmes implemented in previous years and in 2007, source market Northern Europe reproduced its strong 2006 performance despite a difficult market environment in the UK. In the financial year 2007, the package tour business in the UK operated in an adverse market environment characterised by price and cost pressures, in particular following the increase in the air passenger duty (APD). In the fourth quarter, the British travel market showed some initial signs of recovery. The Nordic countries continued to record a positive business development in a favourable market environment.

Western Europe

In source market Western Europe (France, the Netherlands, Belgium and airlines Corsairfly, Arkefly and Jetairfly), turnover rose due to an increase in customer volumes in the Netherlands and Belgium.

The restructuring programmes of the tourism entities in France, the considerable recovery of the French travel market in the course of the year and the continued positive business development in the Belgian market, resulted in a significant improvement in business in source market Western Europe.

Specialist Holidays

The Specialist Sector comprises three segments: Destination, Premium and Lifestages. While Destination focuses on specific destinations, the Premium Segment comprises five brands specialising in premium leisure travel experiences in Europe, Asia and the Caribbean. The Lifestages Segment offers specially tailored tours for particular customer demographics. In 2007, the sector was included in TUI's consolidated financial statements for the first time for a period of four months and was almost in line with the corresponding period in 2006. The tour operators pooled in this segment increased their customer volumes by 5% year-on-year to 678,000.

Activity

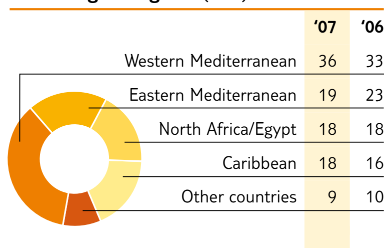
The Activity Sector comprises three segments: Marine, Adventure and Experiential each consisting of a number of travel companies covering activity-related holidays. The Marine Segment encompasses providers of charter yachts, while the portfolio of the Adventure and Experiential Segments includes cultural and luxury escorted tours. The Activity Sector was included in TUI's consolidated financial statements for the first time for a period of four months in 2007 and improved significantly year-on-year during that period.

Online Destination Services

The Online Destination Services Sector provides incoming agencies services and sells accommodation online to both business and consumers. Online Destination Services runs data bases of hotels and apartments, offered both to travel shops and tour operators but also directly to the final customers. The incoming agencies provide services at destination, e.g. transfers, services for holidaymakers and other services for tour operators and cruise lines. These services are carried out by local acting agencies.

The Online Destination Services Sector was included in TUI's consolidated financial statements for the first time for a period of four months in 2007 and improved significantly year-on-year in that period. This improvement was supported in particular through the acquisition of Laterooms at the end of 2006. Incoming agencies reached their successful performance of 2006 and rendered the most substantial contribution to earnings by the Online Destination Services Sector in 2007.

Group-owned hotel beds according to regions (in %)



	'07	'06
Western Mediterranean	36	33
Eastern Mediterranean	19	23
North Africa/Egypt	18	18
Caribbean	18	16
Other countries	9	10

TUI Hotels & Resorts

TUI Hotels & Resorts encompasses the Group's hotel companies. Its portfolio comprises hotel companies in which a majority interest is held, joint ventures with local partners, companies in which financial interests are held and hotels operated under management agreements. At the end of 2007, the companies operated a total of 237 hotels with a capacity of around 144,000 beds, mostly in the four-star category. The year-on-year change was mainly attributable to the transfer of the Nordotel, Atlantica and Gran Resort companies and their hotel facilities to TUI Travel PLC as per 3 September 2007.

The number of bednights in hotels of the TUI Hotels & Resorts sector totalled 32.7 million. Bed occupancy amounted to 81.2% and thus rose by 4.0 percentage points year-on-year. The individual hotel groups and regions reported varying business trends.

Turnover and earnings

TUI Hotels & Resorts – Key figures

€ million	2007	2006	Var. %
Turnover	379.8	346.7	+ 9.5
EBITA by division	**108.8**	**86.6**	**+ 25.6**
Gains on disposals	–	–	
Restructuring	–	–	
Purchase price allocation	–	–	
Other one-off items	*+ 37.3*	*+ 36.6*	
Underlying EBITA by division	**146.1**	**123.2**	**+ 18.6**
Investments	310.2	185.9	+ 66.9
Headcount (31 Dec)	12,127	10,713	+ 13.2

The TUI Hotels & Resorts sector consolidated turnover totalled € 0.4 billion, up 9.5% year-on-year. This increase was due to the rise in sales of bednights and the improved average revenue per bed, whereby the individual hotel companies did not contribute equally to this growth. At € 109 million, earnings climbed by 25.6% year-on-year. Earnings included one-off expenses of an impairment on hotel resorts of the Magic Life Group of € 37 million. Adjusted for these one-off effects, earnings in 2007 climbed by 18.6% to € 146 million year-on-year.

The rise in operating earnings was mainly driven by the Riu hotels, the largest hotel group in the TUI Hotels & Resorts sector, which benefited both from the earnings effect from the opening of new facilities but also higher occupancy rates and revenue per bed. Earnings were adversely affected by the relative weakness of the US dollar against the euro. This effect primarily affected the Riu group and its activities in the destinations Mexico, Jamaica, Dominican Republic, Bahamas and USA, but was more than offset by the increases in occupancy rates and revenue per bed. A further positive effect was attributable to an operating earnings recovery in the club business of the Magic Life Group.

Business development TUI Hotels & Resorts

TUI Hotels & Resorts

Hotel brand	Capacity ('000)[1]			Occupancy rate (%)[2]			Average revenue per bed (€)[3]		
	2007	2006	Var. %	2007	2006	Var. % points	2007	2006	Var. %
Riu	15,071	14,086	+ 7.0	85.6	83.4	+ 2.2	45.96	43.30	+ 6.1
Magic Life	2,835	3,170	- 10.6	80.2	75.2	+ 5.0	36.75	38.33	- 4.1
Grupotel	834	819	+ 1.8	83.5	83.3	+ 0.2	41.19	38.43	+ 7.2
Iberotel	2,719	2,722	- 0.1	61.6	56.0	+ 5.6	30.24	31.50	- 4.0
Robinson	2,220	2,153	+ 3.1	77.1	73.1	+ 4.0	73.75	72.54	+ 1.7
Grecotel	730	737	- 1.0	83.1	84.3	- 1.2	65.62	59.73	+ 9.9
Dorfhotel	200	194	+ 3.3	61.0	64.1	- 3.1	30.67	29.02	+ 5.7
Total	**24,609**	**23,881**	**+ 3.0**	**81.2**	**78.1**	**+ 3.1**	**46.25**	**44.37**	**+ 4.2**

[1] Group-owned or leased hotel beds multiplied by opening days per year
[2] Occupied beds divided by capacity
[3] Arrangement revenue divided by occupied beds

Riu

Riu, one of the leading Spanish hotel groups, continued in 2007 the positive development of previous years. Riu operated 103 facilities with 73,437 beds. While the number of hotels was reduced slightly, bed capacity rose due to changes in the portfolio. Overall, four new Riu hotels were opened in the last financial year. Capacity rose substantially year-on-year by 7.0% to 15.1 million available hotel beds. Occupancy of this greatly increased capacity rose by 2.2 percentage points year-on-year. This was due to the favourable development of demand in all destinations. Average revenue per bed grew by 6.1%. Although business development was impacted by negative exchange rate effects in the destinations in the US dollar currency area, Riu contributed substantially to the positive earnings performance of the sector.

Magic Life

In the period under review, Magic Life, the all-inclusive club brand, operated its 17 facilities with a total capacity of 14,405 beds primarily in Turkey, Egypt and Tunisia. By means of a substantial reduction in capacity by 10.6% to 2.8 million available hotel beds, Magic Life managed to increase its occupancy rate to 80.2%; this was an increase of 5.0 percentage points year-on-year. Average revenue per bed declined by 4.1%. The Magic Life Group further stabilised its earnings situation in the course of the year but did not realise a positive contribution to earnings.

Grupotel

The Grupotel chain operating in Spain with its 34 facilities on Majorca, Menorca and Ibiza had 13,468 beds in the 2007 financial year. The company benefited from the considerable increase in demand for holidays in the Balearics and reproduced 2006 occupancy rates, having expanded its capacity by 1.8%. Average revenue per bed rose substantially by 7.2%. This increase was also reflected by the rise in the group's profit contribution.

Iberotel

In the financial year 2007, Iberotel operated 21 hotels, most of which were located in Egypt and Turkey. The number of hotel beds totalled 12,086. At 61.6%, occupancy grew by 5.6 percentage points year-on-year. In Egypt, in contrast, occupancy rose due to operative improvements, with a total capacity of 2.7 million available hotel beds. The group posted the same earnings level as in 2006, with a slight decline in average revenues per bed.

Robinson

Robinson, market and quality leader in the premium segment for club holidays, operated a total of 20 club facilities with 11,114 beds in eight countries in 2007. Overall occupancy of facilities rose year-on-year in all destinations, with the clubs in Turkey benefiting particularly strongly from an increase in demand. Total growth amounted to 4.0 percentage points. Robinson had a capacity of 2.2 million beds, which corresponded to a year-on-year increase of 3.1%. A temporary closure of a club for renovation purposes was more than offset by the opening of a new club. Average revenue per bed climbed by 1.7% year-on-year.

Grecotel

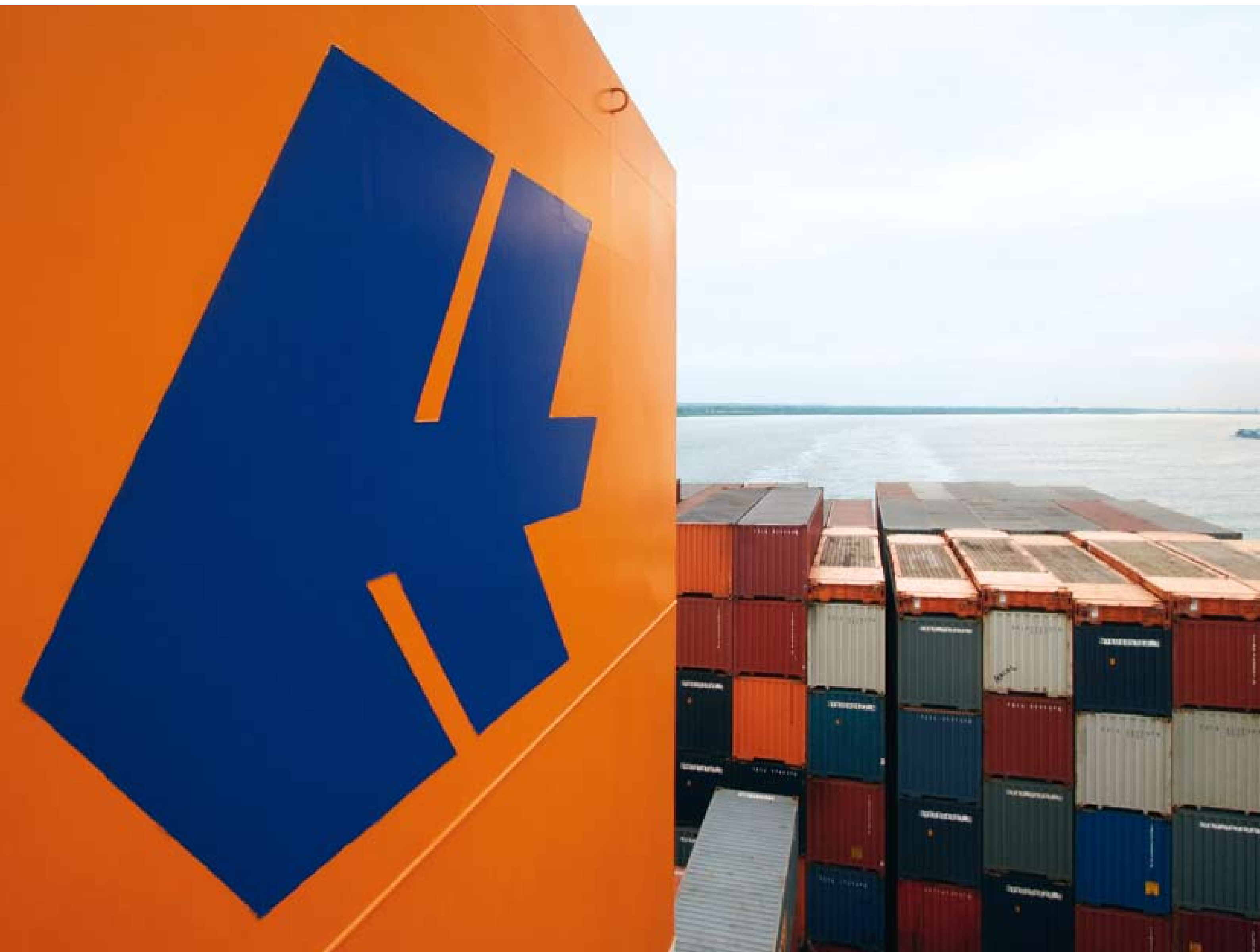
Grecotel, the leading hotel company in Greece, offered, in the reporting period, hotel accommodation in 19 Greek holiday complexes with 9,129 beds. At - 1.2 percentage points, occupancy only dropped slightly on its high level achieved in 2006. This was due to adverse business effects caused by a decline in demand in view of the forest fires in Greece. However, these were almost offset by an expansion of local business. Capacity was reduced by 1.0% year-on-year and totalled 0.7 million beds. Overall, Grecotel achieved substantial growth in average revenue per bed of 9.9%.

Dorfhotel

The two Dorfhotel complexes owned by the Group are located in Austria. The effects of the decline in occupancy rates recorded in the region were offset by an increase in rates. The Dorfhotel concept developed positively in the financial year under review. Other complexes run by the management were located in Fleesensee and Sylt, a facility newly opened in 2007.

As the Dorfhotels primarily offer family rooms and apartments with accordingly a higher number of beds, the average revenues are lower than those of other hotel brands which mainly offer double bedrooms.

Shipping



Shipping Growth in transport volumes. Earnings more than doubled.

The shipping division encompasses container shipping and the cruise business of the Hapag-Lloyd Group. Business development in the 2007 financial year was characterised by a continued recovery in worldwide transport markets as well as a substantial increase in freight rates in container shipping following their low level as at the beginning of the year. Overall, Hapag-Lloyd regained its strong growth potential and achieved volume growth year-on-year.

Turnover and earnings in shipping

Shipping – Key figures

€ million	2007	2006	Var. %
Turnover	**6,201.6**	**6,254.0**	**- 0.8**
Segment turnover	**6,204.4**	**6,259.1**	**- 0.9**
Cost of sales	5,948.2	6,010.8	- 1.0
Gross profit	**256.2**	**248.3**	**+ 3.2**
Administrative expenses	188.8	337.2	- 44.0
Other income/expenses	248.8	- 25.0	n. m.
Result from companies measured at equity	25.7	7.5	+ 242.7
EBITA by division	**341.9**	**- 106.4**	**n. m.**
Gains on disposals	*- 200.5*	–	
Restructuring	*- 1.1*	*+ 66.4*	
Purchase price allocations	*+ 82.4*	*+ 81.8*	
Other one-off items	*- 26.0*	*+ 47.4*	
Underlying EBITA by division	**196.7**	**89.2**	**+ 120.5**
Investments	572.2	192.4	+ 197.4
Headcount (31 Dec)	8,243	8,571	- 3.8

In the 2007 financial year, i.e. the first full financial year following the integration of CP Ships into Hapag-Lloyd, turnover development varied. Despite renewed volume growth, turnover dropped by 0.8% to € 6.2 billion due to the lower US dollar exchange rate against the euro. At € 6.0 billion, container shipping accounted for the largest portion of turnover of the division. Hapag-Lloyd Kreuzfahrten generated turnover of € 0.2 billion, up 14.3% year-on-year.

While turnover was adversely impacted by changes in exchange rates, a correspondingly decline in cost of sales of 1.0% to € 5.9 billion was recorded year-on-year. Overall, gross profit increased by 3.2% to € 256 million.

Administrative expenses decreased significantly by 44.0% to € 189 million. This was due to the synergy effects from the integration of CP Ships which became fully effective in the completed 2007 financial year and the dispense of included restructuring costs in 2006.

The balance of other income and expenses rose by € 274 million to € 249 million. The positive profit contribution included in that balance mainly resulted from the gains on the disposal of the assets in Montreal Gateway Terminals in Canada, sold in March 2007.

The result from companies measured at equity also rose by € 18 million year-on-year to € 26 million. This significant earnings growth was driven by the positive development of earnings of the Altenwerder container terminal.

Earnings by the shipping division totalled € 342 million (previous year: € - 106 million), a significant improvement of € 448 million year-on-year. Container shipping contributed € 328 million to these earnings, while Hapag-Lloyd Kreuzfahrten accounted for € 14 million. Adjusted for lagging expenses for the integration of CP Ships and the one-off income included, especially the divestment of Montreal Gateway Terminals, operating earnings by the shipping division totalled € 197 million, up 120.5% year-on-year.

Container shipping

Container shipping – Key figures

€ million	2007	2006	Var. %
Turnover	6,018.4	6,093.7	- 1.2
EBITA by division	**327.7**	**- 114.3**	**n. m.**
Gains on disposals	*- 200.5*	–	
Restructuring	*- 1.1*	*+ 66.4*	
Purchase price allocation	*+ 82.4*	*+ 81.8*	
Other one-off items	*- 26.0*	*+ 47.4*	
Underlying EBITA by division	**182.5**	**81.3**	**+ 124.5**

Integration of CP Ships and standardisation of reporting structure

The integration of CP Ships, the container shipping company acquired in October 2005, was successfully completed as early as 2006. In 2007, the main focus of activities was on process optimisation and improving productivity.

Since the third quarter of 2006, freight rates and transport volumes have been jointly presented for Hapag-Lloyd and CP Ships and broken down according to the geographical structure of the trade lanes. To that end, the key figures for CP Ships for 2006 were calculated accordingly and determined statistically for the reference periods.

Turnover and earnings

In the 2007 financial year, container shipping turnover declined by 1.2% to € 6.0 billion despite a considerable increase in transport volumes. This decrease was primarily caused by the weak US dollar exchange rate against the euro. Transport volumes grew by 9.0% to 5,454 thousand standard containers (TEU). Average freight rates have been significantly increased in all trade lanes since mid-2007. However, average freight rate levels in 2007 still fell 1.3% short of 2006 levels.

In 2007, earnings developed positively and, at € 328 million, rose substantially against the previous year's negative figure of € - 114 million.

Earnings included one-off effects from:

- the divestment of Montreal Gateway Terminals and the minority interest of Hapag-Lloyd AG in 'Germanischer Lloyd AG' of € 201 million;
- one-off income from the reversal of a restructuring provision in connection with the integration of CP Ships of € 1 million;
- amortisation of assets of € 82 million for the purchase price allocation for CP Ships and
- one-off income from the revaluation of a risk position formed in the wake of the acquisition of CP Ships of € 32 million and one-off expenses of € 6 million for the integration of CP Ships.

Adjusted for these one-off effects, underlying earnings totalled € 183 million for container shipping, an increase of € 101 million year-on-year on a like-for-like basis. The improvement in the operative performance was attributable to the significant volume growth and the efficiency improvements resulting from the successful integration of CP Ships into the Hapag-Lloyd Group. These effects more than offset the adverse impact of the weakness of the US dollar exchange rate against the euro. The impact of the steady rise in bunker costs throughout the year was countered by several measures. An optimisation of schedules and speed reductions helped to generate savings in bunker consumption. In addition, the cost increase was partly passed on to customers via bunker surcharges. Further, a successful fuel cost hedging strategy was launched to complete the set of initiatives.

Development in the trade lanes

In the 2007 financial year, Hapag-Lloyd again defended its position as one of the world's five largest container lines based on existing capacity. As at 31 December 2007, Hapag-Lloyd's container fleet consisted of 141 container ships with a joint slot capacity of 493,000 TEU. As a founding member of the Grand Alliance, Hapag-Lloyd was incorporated into the route network of one of the world's major international liner shipping consortia. Hapag-Lloyd contributed to the consortium around 35% and thus a significant portion of the jointly used capacity. Hapag-Lloyd's transport volume grew by 9.0% to nearly 5.5 million TEU in the 2007 financial year, whereby in particular the East-West route contributed to this increase. Hapag-Lloyd thus outperformed the overall container transport market, which grew by 7.8% in 2007 (Source: Global Insight, September 2007). The expansion of transport capacity by means of the commissioning of three Group-owned new builds with a slot capacity of 8,750 TEU each and a positive effect on volume growth.

Transport volumes Hapag-Lloyd

'000 TEU	2007	2006	Var. %
Far East	1,374	1,183	+ 16.1
Trans-Pacific	1,044	948	+ 10.2
Atlantic	1,456	1,392	+ 4.6
Latin America	890	791	+ 12.5
Australasia	690	690	+ 0.0
Total	**5,454**	**5,004**	**+ 9.0**

Freight rates Hapag-Lloyd

US dollars/TEU	2007	2006	Var. %
Far East	1,379	1,223	+ 12.8
Trans-Pacific	1,453	1,485	- 2.1
Atlantic	1,523	1,659	- 8.2
Latin America	1,399	1,449	- 3.5
Australasia	1,189	1,223	- 2.8
Ø for all trade lanes	**1,411**	**1,430**	**- 1.3**

Far East

At 25% of transport volumes, the Far East trade lane with its routes connecting Europe and Asia shows the strongest growth and is Hapag-Lloyd's second largest trade lane in 2007. Its market volume grew by 15.3% in 2007. Freight traffic from Asia to Europe again grew more than twice as strongly as in the opposite direction. This growth was driven by the ongoing rise in export activities in China, which benefited transportation from Asia to Europe, and the ongoing relocation of production from European to Asian countries. Hapag-Lloyd limited the repercussions of the differences in volume growth in individual routes by optimising the rotation of the container fleet.

Hapag-Lloyd achieved transport volume growth of 16.1%, outperforming the market and growing to 1,374,000 TEU in this trade lane. Average freight rates developed very positively in the course of the year and rose by 12.8% year-on-year. This increase mainly resulted from freight rate increases achieved on the routes from Asia to Europe.

Trans-Pacific

In 2007, the transport market in the Trans-Pacific trade lane grew by 5.1%. Transport growth on the routes from North America to Asia almost grew more than twice as strongly as in the other direction. The growth was attributable to the continuing strong economic growth in China and the associated trade in raw materials and goods between the continents.

In the Trans-Pacific trade lane, Hapag-Lloyd grew by 10.2% and clearly outperformed the market in terms of shipped containers. The transport volume rose to 1,044,000 TEU. The imbalance of transports was improved by means of the selective acquisition of cargo from Asia to North America. Despite freight rates developing positively in the course of the year, the average rate still fell 2.1% short of 2006 levels.

Atlantic

At nearly 27%, transport between North America and Europe accounted for the largest portion of Hapag-Lloyd's business. In the reporting year 2007, the market volume in this trade lane grew by 3.2%. The development of volumes was driven in particular by the increase in transport volumes from North America to Europe since demand for American products was encouraged by the weakness of the US dollar exchange rate.

For 2007, Hapag-Lloyd reported a 4.6% increase in transport volumes and thus outperformed the market. Total transport volumes accounted for 1,456,000 TEU. Continuing strong competition in this trade lane caused a decline in freight rates at the beginning of the year, in particular on the routes from Europe to North America. However, the decline was curbed in

the further course of the year. Cumulative average freight rates for the completed year fell 8.2% short of 2006 levels.

Latin America

The Latin America trade lane primarily links South America with North America and Europe. Market growth totalled 5.6%. Outbound transport from Europe only grew half as strongly as transport from Latin America to Europe. The transport volumes on the routes from North to South America grew due to the weak exchange rate of the US dollar.

The transport volume shipped by Hapag-Lloyd in the Latin America trade lane totalled 890,000 TEU, up 12.5% year-on-year. The increase was caused by the growth in import activities in Latin America. Freight rates were still 3.5% down year-on-year, but since mid-2007 freight rates have risen again in this trade lane.

Australasia

The Australasia trade lane covers the inner-Asian services and the services linking the Far East and the Indian subcontinent with Australia and New Zealand. In 2007, the total market recorded a 7.4% increase in transport volumes. This was primarily due to the strong growth of inner-Asian container transports.

Hapag-Lloyd did not grow in line with the market in this trade lane. The transport volume in Australasia totalled 690,000 TEU, and thus remained at last year's level. This was attributable to deliberate cargo selection. Average freight rates declined by 2.8% year-on-year due to a change in the cargo mix.

Hapag-Lloyd Kreuzfahrten

Hapag-Lloyd Kreuzfahrten – Key figures

€ million	2007	2006	Var. %
Turnover	183.2	160.3	+ 14.3
EBITA by division	**14.2**	**7.9**	**+ 79.7**
Gains on disposals	–	–	
Restructuring	–	–	
Purchase price allocation	–	–	
Other one-off items	–	–	
Underlying EBITA by division	**14.2**	**7.9**	**+ 79.7**
Utilisation (in %)	78.6	73.5	+ 5.1

Turnover and earnings

In the 2007 financial year, the Hapag-Lloyd Kreuzfahrten business again developed positively, benefiting from the acquisition of new customer groups for cruises and the fact that the destinations were largely free of insecure political situations and natural disasters. Due to the high-quality product portfolio, average turnover per day also continued to rise year-on-year. Total turnover accounted for € 183 million, up 14.3% year-on-year.

Hapag-Lloyd Kreuzfahrten reported earnings of € 14 million, an increase of 79.7%. This growth was mainly attributable to the rise in the improvement in rates and occupancy rates. Earnings were adversely affected by the rise in fuel prices which, however, were countered by means of corresponding price hedging measures.

Business development

The cruise market in the German-speaking region again developed well in 2007, with high single-digit growth in total passenger volumes year-on-year. In the period under review, two new ships started operations in the German cruise market.

Hapag-Lloyd Kreuzfahrten continued to expand its position in the German-speaking premium and luxury market for traditional and expedition cruises. In the 2007 financial year, the fleet was made up unvaried of four cruise ships: the 'Europa', the 'Columbus', the 'Hanseatic' and the 'Bremen'. Two of the ships were owned while the other two were chartered. The average age of the fleet was twelve years. Two of the ships had a scheduled dock period in the financial year under review in order to be technically overhauled and have their inboard accommodation facilities improved.

In 2007, all four ships increased their utilisation year-on-year. Average utilisation of all ships was 78.6%, up 5.1 percentage points year-on-year.

Earnings Positive development of the core businesses causes a significant increase of earnings.

Since the interim financial statements as at 30 September 2007, the consolidated profit and loss statement has been structured in accordance with the cost of sales method. Under this format, turnover is presented together with the cost of sales incurred to generate the turnover. The cost of sales format enhance the international comparability.

Development of Group earnings

The first-time consolidation of the First Choice activities for the period from September to December of the completed financial year 2007 caused a limited comparability of the items in the profit and loss statement with the respective figures for 2006.

Consolidated profit and loss statement

€ million		2007	2006	Var. %
Turnover		21,865.6	20,514.6	+ 6.6
Cost of sales		20,331.1	19,205.7	+ 5.9
Gross profit		**1,534.5**	**1,308.9**	**+ 17.2**
Administrative expenses		1,385.4	1,382.3	+ 0.2
Other income/other expenses		336.0	223.1	+ 50.6
Impairments of goodwill		53.7	709.5	- 92.4
Financial result		- 259.0	- 221.8	- 16.8
Financial income		209.8	179.3	+ 17.0
Financial expenses		468.8	401.1	+ 16.9
Result from companies measured at equity		64.7	50.5	+ 28.1
Earnings before income taxes		**237.1**	**- 731.1**	**n. m.**
Reconciliation to underlying earnings:				
Earnings before income taxes		237.1	- 731.1	n. m.
Interest result and earnings from the valuation of interest hedges		257.4	219.1	+ 17.5
Impairment of goodwill		53.7	712.8	- 92.5
EBITA from continuing operations[1]		548.2	200.8	+ 173.0
Adjustments				
Gains on disposals		*- 193.7*	*- 188.0*	
Restructuring		*+ 68.0*	*+ 167.0*	
Purchase price allocation		*+ 131.2*	*+ 81.8*	
Other one-off items		*+ 62.4*	*+ 171.9*	
Revaluation of convertible options		*–*	*- 15.0*	
Underlying EBITA from continuing operations		**616.1**	**418.5**	**+ 47.2**
Earnings before income taxes		**237.1**	**- 731.1**	**n. m.**
Income taxes		0.8	129.4	- 99.4
Result from continuing operations		**236.3**	**- 860.5**	**n. m.**
Result from discontinuing operations		0.0	17.1	n. m.
Group profit/loss for the year		**236.3**	**- 843.4**	**n. m.**
- attributable to shareholders of TUI AG of Group profit		175.1	- 890.3	n. m.
- attributable to minority interests of Group profit		61.2	46.9	+ 30.5
Group profit/loss for the year		**236.3**	**- 843.4**	**n. m.**
Basic earnings per share	in €	0.61	- 3.65	n. m.
Diluted earnings per share	in €	0.61	- 3.65	n. m.

[1] EBITA represents earnings before interests, income taxes and amortisation of goodwill.

The previous year values were restated to a small extent due to the first-time implementation of the regulations of IAS 23 ('Borrowing costs') in 2007.

Turnover and cost of sales

Turnover is made up of the turnover generated by the tourism and shipping divisions as well as central operations, which covers the Group's holding companies and real estate companies. At € 21.9 billion, Group turnover rose by 6.6% year-on-year. Turnover is presented alongside the cost of sales, which accounted for € 20.3 billion, up 5.9% year-on-year. Excluding turnover from First Choice since September 2007, turnover matched 2006 levels. A detailed breakdown of turnover and the development of turnover is presented in the section 'Group turnover and earnings'.

Gross profit

Gross profit, i.e. turnover less cost of sales, totalled € 1.5 billion in the completed financial year 2007, up 17.2% year-on-year.

Administrative expenses

Administrative expenses comprised expenses not directly attributable to the turnover transactions, especially expenses for general management functions. In the financial year 2007, they accounted for € 1.4 billion, matching 2006 levels. Adjusted of the effect of the first-time consolidation of First Choice in the completed financial year a decline of administrative expenses was recorded. This resulted mainly from discharge after the divestments made in the year 2006 (business travel operations TQ3 Travel Solutions, Wolf Heiz- und Klimatechnik and TUI InfoTec IT services companies) as well as the integration and restructuring expenses in shipping and tourism still included in 2006 figures.

Other income/
Other expenses

Other income and other expenses primarily comprised profits or losses from the sale of fixed assets. In the financial year 2007, this item accounted for € 336 million, up 50.6% year-on-year. This increase was mainly due to the income from the divestment of Montreal Gateway Terminals in the shipping division.

Impairments of goodwill

Goodwill impairments totalled € 54 million and related to the Irish Budget Travel company and the Magic Life Group in the tourism division.

Financial income and expenses/
Financial result

In the 2007 financial year, financial income totalled € 210 million with financial expenses of € 469 million. The net financial result was € - 259 million. The financial result included the interest result and net income from marketable securities.

In total, the financial result declined by € 37 million year-on-year. This was due to the inclusion of the financial result from First Choice as of September 2007.

Result from companies
measured at equity

The result from companies measured at equity comprised the proportionate net profit for the year of the associated companies and joint ventures. At € 65 million, it rose by 28.1% on the previous year. The increase was caused due to the positive development of the Container Terminal Altenwerder in the shipping division.

Underlying earnings (EBITA)

In the 2007 financial year, underlying earnings of the continuing operations totalled around € 616 million, up 47.2% year-on-year. Underlying EBITA was adjusted for gains on disposal of investments, expenses relating to restructuring measures, amortisations of purchase price allocations, one-off items as well as effects from the revaluation of conversion options. The adjustments and the development of turnover are outlined in detail in the chapters 'Turnover and earnings', 'Tourism' and 'Shipping'.

Income taxes

Income taxes included taxes on the profits from ordinary business activities of the continuing operations. They totalled € 1 million, comprising effective income taxes of € 104 million and deferred tax revenue of € 103 million. The significant year-on-year decrease in income taxes resulted mainly of the realignment of the corporate structure in Germany with the merger between the tourism entities and First Choice to the new TUI Travel PLC.

Result from discontinuing operations

The TUI Group no longer held any discontinuing operations in the 2007 financial year. Consequently, the Group did not generate any earnings in accordance with IFRS 5. In 2006, the result from discontinuing operations had totalled € 17 million, including an income tax expense of € 12 million. Pre-tax earnings amounted to € 29 million in 2006.

Group profit

At € 236 million, Group profit for the year rose substantially against the previous year's loss of € - 843 million. In comprehension of the high impairments of goodwill year-on-year the increase of the group profit mainly resulted by the improved profits in the operating divisions. The development of the profit contributions by tourism and shipping is outlined in detail in the section 'Turnover and earnings'.

Minority interests

Minority interests in Group profit for the year totalled € 61 million and almost exclusively related to companies in the tourism division.

Earnings per share

The interest in Group profit for the year attributable to TUI AG shareholders (after deduction of minority interests and the dividend on the hybrid capital) increased to € 175 million. In relation to the weighted average number of shares of 251,030,397 units, basic earnings per share amounted to € 0.61 (previous year: € - 3.65). The convertible bond from November 2003 did not cause a dilution effect, so that diluted earnings per share stood at € 0.61.

TUI AG earnings

The annual financial statements of TUI AG were prepared in accordance with the provisions of the German Commercial Code and audited by the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. They were published in the electronical Federal Gazette. The annual financial statements have been made permanently available on the internet at www.tui-group.com and may be requested in print from TUI AG.

Profit and loss statement of TUI AG

€ million	2007	2006	Var. %
Turnover	455.0	303.7	+ 49.8
Other operating income	2,289.8	972.0	+ 135.6
Costs of materials	190.5	155.4	+ 22.6
Personnel costs	63.1	75.9	- 16.9
Depreciation	359.3	320.3	+ 12.2
Other operating expenses	1,867.9	1,556.6	+ 20.0
Net income from investments	576.7	3,672.3	- 84.3
Write-downs of investments	499.7	2,549.0	- 80.4
Net interest	- 270.1	- 183.2	- 47.4
Profit on ordinary activities	**70.9**	**107.6**	**- 34.1**
Taxes	4.5	4.0	+ 12.5
Net profit for the year	**66.4**	**103.6**	**- 35.9**

Earnings of TUI AG, the Group's parent company, were mainly determined by the development of earnings of its Group companies, either directly associated with TUI AG via profit and loss transfer agreements or through distributing their profits to TUI AG based on corresponding resolutions. The development of the earnings of TUI AG was also significantly affected by the restructuring of the tourism division implemented in 2007 and the valuation of financial derivatives for hedging purposes. As before, the profit and loss statement for the 2007 financial year is prepared on the basis of the type of expenditure format.

Turnover and other operating income

In the 2007 financial year, TUI AG's turnover rose by 49.8% to € 455 million. This turnover primarily related to income from the lease of aircraft, container ships and containers to Group companies. Other operating income rose by 135.6% to € 2,290 million. It mainly included book profits from the sale of financial assets and property, plant and equipment to Group companies, foreign exchange gains from currency transactions and income from reversals of write-downs of investments. A negative effect on the other operating income was above all caused by the year-on-year decline in income from the reversal of provisions.

Expenses

As far as expenses are concerned, the cost of materials rose by 22.6% to € 191 million. This was caused by an increase in aircraft rental expenses which were leased to the airlines of TUI Travel PLC. In the light of a reduction in pension expenses caused by lower additions to pension provisions, personnel costs declined by 16.9% to € 63 million. Depreciation and amortisation rose significantly. At € 359 million, they rose by 12.2% year-on-year due to the first time amortisation of container ships and containers for a complete year. An opposite effect was caused by an impairment of aircraft, carried out in the previous year and the amortisation for the transfer of aircraft to TUI Travel PLC for the last four months of the financial year. Other operating expenses rose by 20.0% to € 1,868 million. The increase was above all attributable to higher expenses for the measurement of derivative financial instruments and book losses from the disposal of investments, while expenses for intercompany transactions declined considerably.

Investments

At € 577 million, net income from investments was substantially down year-on-year. The decline of € 3,096 million was caused by lower income from investments, considerably lower income from profit and loss transfer agreements, transferred non-recurring due to the restructuring in the shipping sector from an interim holding in 2006, and an increase in losses from profit and loss transfer agreements due to the reorganisation of the tourism division.

Write-downs of financial investments

At € 500 million, write-downs of financial investments declined significantly year-on-year, since write-downs in 2006 had comprised impairments of shares in associated companies due to the realignment of the shipping division and in tourism.

Interest result

The interest result fell by € 87 million year-on-year, due above all to an increase in interest expenses for the internal financing of associated companies as well as interest expenses due to banks.

Net profit for the year

For the 2007 financial year, TUI AG posted a net profit for the year of € 66 million. The year-on-year decline of € 37 million was mainly attributable to the decline in income from investments, only partly offset by other operating income, above all from the sale of property, plant and equipment and investments. Including an amount of € 54 million carried forward and the transfer of other revenue reserves of € 33 million, profit available for distribution totalled € 88 million. It was available for distribution of a dividend of € 0.25 per no-par value share. Given a dividend-bearing volume of 251,245,575 shares, profit available for distribution amounted to € 63 million, with € 25 million carried forward to new account.

Net Assets Increase in balance sheet total. Increase of long-term capitalisation ratio by 72%.

In the 2007 financial year, the first-time inclusion of the activities of First Choice in TUI's consolidated financial statements led to a significant increase in assets and debt. These structural changes of the Group affected both the balance sheet total and the asset and capital structure of the Group and TUI AG.

Net assets of the Group

The Group's balance sheet total rose by 25.1% to € 16,304 million year-on-year. This increase mainly resulted from additions to the group of consolidated companies in the wake of the formation of TUI Travel PLC.

The application of uniform accounting and measurement methods following the merger with First Choice and the first-time application of the provisions of IAS 23 ('Borrowing Costs') had immaterial effects on some of the Group's balance sheet items. In order to enhance comparability, the values for the 2006 financial year were restated accordingly. Explanatory information and a reconciliation table are provided in the notes on the consolidated financial statements in section 'Accounting principles'.

Development of the Group's asset structure

€ million	31 Dec 2007	31 Dec 2006	Var. %
Fixed assets	10,877.7	9,522.5	+ 14.2
Non-current assets	629.9	635.1	- 0.8
Non-current assets	11,507.6	10,157.6	+ 13.3
Inventories	208.7	129.3	+ 61.4
Current receivables	2,965.2	1,883.4	+ 57.4
Cash and cash equivalents	1,614.0	688.7	+ 134.4
Assets held for sale	8.8	171.4	- 94.9
Current assets	4,796.6	2,872.8	+ 67.0
Assets	**16,304.2**	**13,030.4**	**+ 25.1**
Equity	3,124.2	3,007.4	+ 3.9
Liabilities	13,180.0	10,023.0	+ 31.5
Equity and liabilities	**16,304.2**	**13,030.4**	**+ 25.1**

Structural ratios

Vertical structures

Non-current assets accounted for 70.6% of total assets, compared with 78.0% in the previous year. Fixed assets represented 94.5% of non-current assets; they increased by 14.2% to € 10,878 million, above all due to an increase in other intangible assets and other property, plant and equipment caused by the first-time consolidation of First Choice. The capitalisation ratio (ratio of fixed assets to total assets) decreased to 66.7%, down from 73.1% in 2006.

Current assets accounted for 29.4% of total assets, compared with 22.0% in 2006. The considerable increase in receivables resulted from the first-time consolidation of First Choice. At € 1,614 million, the Group's liquid funds rose temporarily by 134.4% as at the balance sheet date due to the merger with First Choice as well. They thus accounted for 9.9% of total assets, compared with 5.3% in the previous year.

Horizontal structures

At the balance sheet date, the ratio of equity to non-current assets was 27.1%, compared with 29.6% in 2006. The ratio of equity to fixed assets was 28.7%, following 31.6% in the previous year. The ratio of equity plus non-current financial liabilities to fixed assets was 72.2%, compared with 68.1% in 2006.

Structure of the Group's non-current assets

€ million	31 Dec 2007	31 Dec 2006	Var. %
Goodwill	3,058.3	3,134.8	- 2.4
Other intangible assets	1,373.8	604.9	+ 127.1
Investment property	90.5	95.7	- 5.4
Property, plant and equipment	5,706.2	5,162.1	+ 10.5
Companies measured at equity	540.7	407.7	+ 32.6
Financial assets available for sale	108.2	117.3	- 7.8
Fixed assets	10,877.7	9,522.5	+ 14.2
Receivables and assets	437.6	359.5	+ 21.7
Deferred income tax claims	192.3	275.6	- 30.2
Non-current receivables	629.9	635.1	- 0.8
Non-current assets	**11,507.6**	**10,157.6**	**+ 13.3**

Development of the Group's non-current assets

Goodwill

At € 3,058 million, goodwill declined slightly by 2.4% due to the impairments of € 54 million required by the annual impairment test.

Impairments were made up of € 34 million relating to TUI Travel PLC in connection with the sale of the Irish Budget Travel and an amount of € 20 million for the Magic Life Group in the TUI Hotels & Resorts sector.

At € 2,957 goodwill largely related to companies in the tourism division. At 82.5%, TUI Travel PLC accounted in total for the largest portion, followed by the TUI Hotels & Resorts sector at 14.2%. Goodwill attributable to companies in the shipping division totalled € 101 million. The merger with First Choice created goodwill of € 1,228 million after the purchase price paid had been allotted in accordance with IFRS 3 to the assets and liabilities acquired as part of the purchase price allocation. No goodwill arose in any of the Group's other sectors. At the balance sheet date, goodwill accounted for 18.8% of total assets and 97.9% of equity.

Property, plant and equipment

At € 5,706 million, property, plant and equipment represented the largest balance sheet item. They increased by 10.5% and included additions of € 374 million resulting from the first-time consolidation of First Choice and € 294 million for ships and containers. Property, plant and equipment also included leased assets in which Group companies carried the economic ownership. At the balance sheet date, these finance leases had a carrying amount of € 322 million, a change of - 6.3% year-on-year.

Development of property, plant and equipment

€ million	31 Dec 2007	31 Dec 2006	Var. %
Real estate with hotels	921.1	869.4	+ 5.9
Other land	436.1	364.6	+ 19.6
Aircraft	1,217.2	1,344.1	- 9.4
Ships	1,805.6	1,523.4	+ 18.5
Containers	407.3	395.9	+ 2.9
Machinery and fixtures	485.8	454.5	+ 6.9
Assets under construction, payments on account	433.1	210.1	+ 106.1
Total	**5,706.2**	**5,162.0**	**+ 10.5**

Companies measured at equity

A total of 50 companies were measured at equity. This figure included 17 associated companies and 33 joint ventures. At € 541 million, their value increased by 32.6% year-on-year as at the balance sheet date.

Financial assets available for sale

Financial assets available for sale declined by 7.8% to € 108 million. They comprised shares in non-consolidated subsidiaries, investments and other securities.

Structure of the Group's current assets

€ million	31 Dec 2007	31 Dec 2006	Var. %
Inventories	208.7	129.3	+ 61.4
Trade accounts receivable and other receivables[1]	2,923.1	1,860.0	+ 57.2
Current income tax claims	42.0	23.4	+ 79.5
Current receivables	2,965.1	1,883.4	+ 57.4
Cash and cash equivalents	1,614.0	688.7	+ 134.4
Assets held for sale	8.8	171.4	- 94.9
Current assets	**4,796.6**	**2,872.8**	**+ 67.0**

[1] incl. receivables from derivative financial instruments

Development of the Group's current assets

Inventories

At € 209 million, inventories rose by 61.4% year-on-year. This increase was primarily attributable to the first-time consolidation of First Choice.

Current receivables

Current receivables comprised trade accounts receivable and other receivables, current income tax claims and claims from derivative financial instruments. At € 2,965 million, current receivables rose by 57.4% year-on-year. This increase, too, primarily resulted from the first-time inclusion of First Choice in the Group's consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents rose by 134.4% to € 1,614 million year-on-year. This increase was attributable to a temporary increase in cash and cash equivalents within TUI Travel PLC following the granting of a shareholder loan by TUI AG.

Assets held for sale

Assets held for sale fell significantly by 95 percentage points due to the divestment of the Montreal container terminal in the financial year under review.

Unrecognised assets

In carrying out their business operations, Group companies used assets of which they were not the economic owner in accordance with the IASB rules. Most of these assets were aircraft, hotel complexes or ships for which operating leases, i.e. rental, lease or charter contracts, were concluded on terms and conditions customary in the sector.

Operating rental, lease and charter contracts

€ million	31 Dec 2007	31 Dec 2006	Var. %
Hotel complexes	553.2	433.6	+ 27.6
Travel agencies	583.1	418.6	+ 39.3
Aircraft	1,134.9	882.4	+ 28.6
Ships and containers	2,326.1	2,219.2	+ 4.8
Administrative buildings	389.6	350.9	+ 11.0
Other	265.1	153.8	+ 72.4
Total	**5,252.0**	**4,458.5**	**+ 17.8**
Fair value	**4,316.2**	**3,827.1**	**+ 12.8**

The financial liabilities from operating rental, lease and charter contracts rose by 17.8% to € 5,252 million. At 44.3%, ships and containers accounted for the largest share, with aircraft accounting for 21.6% and hotel complexes for 10.5%. The increase mainly resulted from the inclusion of First Choice's financial liabilities as at the balance sheet date.

Further explanations as well as the structure of the remaining terms of the financial liabilities from operating rental, lease and charter contracts are provided in the section 'Other financial liabilities' in the notes on the consolidated financial statements.

Net assets of TUI AG

The asset situation and balance sheet structure of TUI AG are characterised by its function as the TUI Group's holding company. The balance sheet total grew slightly by 6.9% to € 11.3 billion.

Development of fixed assets

At the balance sheet date, fixed assets accounted for 72.1% of total assets, of which 93.9% were covered by equity and non-current cash and cash equivalents. 79.8% of TUI AG's fixed assets consisted of investments. The decline of investments of € 1,168 million year-on-year resulted mainly from the reorganisation of the participation structure in tourism. In terms of intangible assets and property, plant and equipment, the decline was primarily attributable to the intra-Group transfer of aircraft, spare parts and advance payments made for the acquisition of aircraft to TUI Travel PLC.

Development of current assets

The increase in receivables mainly resulted from the granting of an interest-bearing shareholder loan to TUI Travel PLC.

Abbreviated balance sheet of TUI AG
(financial statements according to German Commercial Code)

€ million	31 Dec 2007	31 Dec 2006	Var. %
Intangible assets/property, plant and equipment	1,640.4	2,236.8	- 26.7
Investments	6,483.2	7,651.6	- 15.3
Fixed assets	8,123.6	9,888.4	- 17.8
Receivables	2,796.6	594.5	+ 370.4
Cash and cash equivalents	306.5	7.6	n. m.
Current assets	3,103.1	602.1	+ 415.4
Prepaid expenses	44.7	49.0	- 8.8
Assets	**11,271.4**	**10,539.5**	**+ 6.9**
Equity	3,706.3	3,616.5	+ 2.5
Special non-taxed item	41.5	42.6	- 2.6
Provisions	1,054.3	730.2	+ 44.4
Liabilities	6,458.1	6,137.6	+ 5.2
Deferred income	11.2	12.6	- 11.1
Liabilities	**11,271.4**	**10,539.5**	**+ 6.9**

Financial Position

The 2007 financial year was characterised by the merger of TUI's tourism activities with First Choice. In the framework of this merger, the balance sheet total and thus also the TUI Group's debt increased since First Choice's debt had to be included in the consolidated financial statements. Funds of € 694 million were raised through a convertible bond, with a further € 150 million raised through private placements. These funds helped to safeguard liquidity in the framework of general corporate financing.

The Group's financial position

Principles and goals of financial management

Principles

As a matter of principle, the TUI Group's financial management is centrally operated by TUI AG, which acts as the Group's internal bank. Financial management covers all Group companies in which TUI AG directly or indirectly holds an interest of more than 50%. It is based on policies covering all cash flow-oriented aspects of the Group's business activities.

With the merger of TUI's tourism activities with First Choice to form TUI Travel PLC, the central cash management and financial risk management system, previously managed by TUI AG alone, was divided up. TUI Travel PLC now performs these functions for the tourism division in line with the unchanged risk policy of the Group, while TUI AG continues to hold this function for all other business activities of the Group.

Objectives

TUI's financial management aims to ensure sufficient liquidity and capital for TUI AG and its subsidiaries any time and limit financial risks from currencies, interest rates and commodity prices. All transactions serve the goal of achieving financial indicators to enhance the current credit rating.

Liquidity management

The Group ensures its liquidity in two ways:

- Through intra-Group financial remuneration, the cash surpluses of individual Group companies are used to finance the cash requirements of other Group companies.
- TUI uses syndicated credit facilities and bilateral bank loans as well as its liquid funds to secure sufficient cash reserves. Planning of bank transactions is based on a monthly rolling liquidity planning system.

Limiting financial risks

The Group companies operate on a worldwide scale. This gives rise to financial risks for the TUI Group, mainly arising from changes in exchange rates, interest rates and commodity prices. The business transactions of the Group companies are primarily settled in euros, US dollars and British pounds sterling; other currencies of relevance are Swiss francs and Swedish krona. The Group has entered into hedges in more than 20 foreign currencies

in order to limit risks from changes in exchange rates for the underlying transactions. Risks related to changes in interest rates arise on liquidity procurement in the international money and capital markets. In order to minimise these risks the Group uses derivative interest hedges on a case-by-case basis in the framework of its interest management system. Changes in commodity prices affect the TUI Group in particular in terms of the procurement of fuels such as aircraft fuel and bunker oil. Most price risks related to fuel procurement are hedged both in tourism and shipping where price increases cannot be passed on to customers due to contractual agreements.

More detailed information on hedging strategies and risk management as well as financial transactions and the scope of such transactions at the balance sheet date is provided in the section 'Risk Report' in the management report and the section 'Financial instruments' in the notes on the consolidated financial statements.

Development of the Group's capital structure

Capital structure of the Group

€ million	31 Dec 2007	31 Dec 2006	Var. %
Non-current assets	11,507.6	10,157.6	+ 13.3
Current assets	4,796.6	2,872.8	+ 67.0
Assets	**16,304.2**	**13,030.4**	**+ 25.1**
Subscribed capital	642.3	641.7	+ 0.1
Reserves including net profit available for distribution	1,889.7	1,791.8	+ 5.5
Hybrid capital	294.8	294.8	+ 0.0
Minority interests	297.4	279.1	+ 6.6
Equity	3,124.2	3,007.4	+ 3.9
Non-current provisions	1,816.9	1,726.2	+ 5.3
Current provisions	625.6	714.5	- 12.4
Provisions	2,442.5	2,440.7	+ 0.1
Non-current financial liabilities	4,732.8	3,477.6	+ 36.1
Current financial liabilities	807.4	422.0	+ 91.3
Financial liabilities	5,540.2	3,899.6	+ 42.1
Other non-current liabilities	256.8	55.3	+ 364.4
Other current liabilities	4,940.5	3,627.4	+ 36.2
Other liabilities	5,197.3	3,682.7	+ 41.1
Liabilities	**16,304.2**	**13,030.4**	**+ 25.1**

Capital structure

The development of the TUI Group's capital structure in the 2007 financial year was mainly affected by the first-time consolidation of the assets and liabilities of First Choice. Overall, non-current capital rose by 20.1% to € 9,931 million; in relation to the balance sheet total, they declined by 2.5 percentage points to 60.9%. The equity ratio declined to 19.2%, down from 23.1% in 2006. Equity and non-current financial liabilities accounted for 48.2% of the balance sheet total at the balance sheet date, following 49.8% in 2006.

The gearing, i.e. the ratio of average net financial liabilities to average equity, rose to 99.1%, up from 82.1% in 2006.

Equity

Due to the issue of 225,720 employee shares in December 2007, subscribed capital rose by € 0.5 million to € 642 million. The capital reserve, which only comprised transfers from premiums, also rose mainly due to the issued convertible bond by € 77 million to € 2,472 million. Revenue reserves increased by € 22 million to € - 582 million. Equity include the hybrid bond of € 295 million issued in December 2005. Minority interests accounted for € 297 million of equity.

Provisions

Provisions mainly comprised provisions for pension obligations, current and deferred income tax provisions and provisions for typical operating risks classified as current or non-current, depending on expected occurrence. At the balance sheet date, they accounted for a total of € 2,443 million, up € 2 million or 0.1% on the previous year. This was due to the first-time inclusion of First Choice in the consolidated financial statements.

Financial liabilities

Financial liabilities rose by a total of € 1,641 million to € 5,540 million. They consisted of bonds totalling € 2,945 million, liabilities to banks of € 2,160 million, liabilities from finance leases of € 256 million and other financial liabilities of € 179 million. The increase resulted from the inclusion of the financial liabilities of First Choice in the consolidated financial statements and the increase of cash and cash equivalents due to the merger with First Choice which had to be financed temporarily. The classification into current vs. non-current financial liabilities was based on maturities. Financial liabilities shown as current liabilities rose to € 807 million. This was mainly attributable to the convertible bond with a nominal value of € 385 million maturing in December 2008, now classified as current. Most of the additional financial debt of the TUI Group caused by the inclusion of First Choice in consolidation was classified as non-current. The increase in non-current financial liabilities to € 4,733 million was also due, in particular, to the convertible bond of € 694 million issued in the financial year under review and the outside capital raised by means of private placements worth € 150 million. More detailed information, in particular on the remaining terms, is provided under 'Financial liabilities' in the notes on the consolidated financial statements.

Other liabilities

At € 5,197 million, other liabilities rose by € 1,515 million or 41.1% year-on-year. Here, too, the increase was mainly attributable to the inclusion of First Choice in consolidation.

Ratings by Standard & Poor's and Moody's

In the 2007 financial year, the rating agencies Standard & Poor's and Moody's adjusted their credit ratings of TUI AG. The corporate rating assigned by Standard & Poor's was adjusted to 'BB-' (negative outlook), with Moody's changing their rating to 'B1' (negative outlook). The senior notes of around € 2.0 billion issued in 2004 and 2005 and the convertible bond of around € 0.7 billion in 2007 were assigned a 'B' rating by Standard & Poor's and a 'B3' rating by Moody's. The hybrid bond issued in December 2005 was partly treated as equity as it was subordinated to other liabilities and did not have a fixed maturity; it was therefore rated 'B-' by Standard & Poor's and 'B3' by Moody's.

Key financing measures

The 2007 financial year was characterised by the refinancing of the financial liabilities of First Choice at the TUI Travel PLC level as well as the raising of outside capital by means of the issue of a convertible bond and private placements serving to safeguard liquidity in the framework of general corporate financing. A multi-annual loan was taken up in order to finance a long-term investment.

Issue of a convertible bond

In June 2007, TUI AG issued a 5-year convertible bond with a nominal volume of € 694 million and an interest coupon of 2.75% per annum. The bond can be converted into shares in TUI AG at a conversion price of € 27.68 per share. Conditional capital of up to € 64.1 million was available to service potential conversions.

Private placements

In October 2007, private placements were issued with a maturity of around three years and a total volume of € 150 million. The note loans were securitised in several tranches and are subject to a fixed interest rate agreement.

Refinancing by TUI Travel PLC

In August 2007, TUI Travel PLC signed a syndicated credit facility of GBP 770 million. This facility has a maturity of five years and carries floating interest rates. Under this facility, cash may be drawn and bank guarantees may be extended. The credit facility refinanced a reduction of financial liability of First Choice of approximately GBP 506 million. At the balance sheet date, around GBP 79 million of bank guarantees were used.

Bonding facility

In March 2005, TUI Northern Europe signed a syndicated bonding facility under which TUI Northern Europe or its subsidiaries were able to furnish statutory bank guarantees as security to supervisory authorities as required for the tourism business in the UK, Ireland and Scandinavia. The bonding facility was adjusted to needs in January 2007 and thus totalled GBP 280 million. In October 2007, TUI Northern Europe terminated this facility as part of a refinancing scheme. In August 2007, TUI Travel PLC signed a new bonding facility under which the bonding facility of TUI Northern Europe and the proportion of bank guarantees granted as part of the former revolving credit facility of First Choice worth GBP 310 million were refinanced. The total volume, adjusted to actual needs, amounted to GBP 430 million. The new bonding facility will mature on 31 March 2008, but can be prolonged to 31 March 2009 under an extension option available to TUI Travel PLC. As at 31 December 2007, an amount of around GBP 407 million of the bonding facility had been used.

Investment financing

In the framework of an order transaction concerning the production and delivery of six container ships with 8,750 TEU each, Hapag-Lloyd took up a consortium loan worth USD 660 million in November 2007. The loan amount covers 80% of the investment volume of the ships planned to be delivered in 2010. The term of the loan is 15 years, covering the financing of the production period and a redemption period of twelve years. The loan carries a floating interest rate. The loan has been securitised by means of the ships to be financed and of the Korean Export Insurance Corporation.

Interest rates and terms

Financing environment

In the course of 2007, the environment for financing schemes in the money and capital market deteriorated slightly for the TUI Group due to the lower rating assigned by Standard & Poor's and Moody's. However, a considerably stronger effect was caused by the persistent confidence crisis in the financial market, which began in the second half of the year and caused a substantial increase in credit margins across all sectors and in particular in the non-investment grade segment.

Interest rates

The increase of the financial debt year-on-year and of the interest level in this period with its effects on the variable interest-bearing financing instruments caused an increase of interest expenses. Both interest rates and maturities of the financial liabilities are detailed under the item 'Liabilities' (financial liabilities and liabilities to banks) in the notes on the consolidated financial statements. The temporary increase of liquid funds due to the merger with First Choice and the increasing interest level caused a raised interest income.

Listed bonds

Capital measure	Maturity	Volume € million	Interest rate %
Convertible bond November 2003	December 2008	384.55	4.000
Senior floating rate notes June 2004	August 2009	400.00	3M EURIBOR plus 2.10
Senior fixed rate notes May 2004	May 2011	625.00	6.625
Senior floating rate notes December 2005	December 2010	550.00	3M EURIBOR plus 1.55
Senior fixed rate notes December 2005	December 2012	450.00	5.125
Hybrid bond December 2005	No fixed maturity	300.00	8.625
Convertible bond June 2007	September 2012	694.00	2.750

Off-balance sheet financing instruments

Operating leases

In the 2007 financial year, off-balance sheet financing instruments (operating leases) were used in the tourism division in order to further optimise financing structure. In connection with the ongoing renewal of the aircraft fleet in tourism, a total of 18 new aircraft were added in 2007. For all aircraft, operating leases were concluded, including eleven sale-and-lease-back transactions. In shipping, long-term charter contracts were concluded for two 8,750 TEU vessels which have been ordered and will be delivered in December 2009. Long-term charter contracts were also concluded for two newly commissioned 4,250 TEU vessels. In addition, medium-term charter contracts were concluded for five container ships with a capacity of 1,000 to 2,800 TEU in order to expand the fleet.

The development of the operating rental, leasing and charter contracts is presented in the section 'Net assets' in the management report. More detailed explanations and information on the structure of the remaining terms of the associated financial liabilities are provided in the section

'Other financial liabilities' in the notes on the consolidated financial statements. There were no contingent liabilities related to special-purpose companies.

Liquidity analysis

Cash reserve

In the 2007 financial year, the TUI Group's solvency was secured at all times by means of cash inflows from operating activities, liquid funds as well as bilateral and syndicated credit agreements with banks.

In December 2005, TUI AG concluded an agreement on a syndicated credit line (multicurrency revolving credit facility) totalling € 1.75 billion, maturing in December 2009 following the exercise of an extension option. In January 2007, the credit facility was reduced to € 1.0 billion, as needed, due to the implementation of initial measures concerning a programme to reduce invested capital. Besides the syndicated credit line TUI's cash reserve was made up of unused bilateral credit lines with banks and cash and cash equivalents. TUI's cash reserve thus totalled € 2.6 billion.

No restrictions on the transfer of liquid funds

At the balance sheet date, there were no restrictions on the transfer of liquid funds within the Group that might have significantly impacted the Group's liquidity such as restrictions on capital movements or restrictions due to credit agreements concluded.

Change of control

TUI AG's listed bonds, the private placements issued in 2006 and 2007 and a bilateral credit line agreement included change of control clauses. A change of control occurs if a third party directly or indirectly acquires depending on contract control over at least 30% or the majority of the voting shares in TUI AG.

In the event of a change of control, bond holders must be offered a buy-back of the corresponding bond. This provision applies to all listed bonds with the exception of the hybrid bond and the convertible bonds. For the hybrid bond, an interest mark-up has been agreed to take effect in the event of a change of control should the rating be downgraded. For the convertible bonds, a right of termination or reduction of the conversion price has been agreed.

Concerning the private placements and a bilateral credit line agreement, the lenders are entitled to terminate the agreements in the event of a change of control.

The total volume of financing instruments and credit lines with corresponding change of control clauses currently amounts to around € 3.9 billion. In addition, there are no agreements in guarantee, leasing, option or other financial contracts that might cause material early redemption obligations that would be of significant relevance for the Group's liquidity.

Apart from the financing instruments mentioned above, a framework agreement between the Riu family and TUI AG includes a change of control clause. A change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board is attributable to a shareholder

group. In the event of a change of control, the Riu family is entitled to acquire at least 20% and at most all shares in RIUSA II S.A. held by TUI.

A corresponding agreement concerning a change of control in TUI AG was concluded with the El Chiaty Group. Here, too, a change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board is attributable to a shareholder group. In that case, the El Chiaty Group is entitled to acquire at least 15% and at most all shares in the joint hotel companies in Egypt and the United Arab Emirates held by TUI.

Under the licence agreement concluded with the allocation of the tourism business to TUI Travel PLC, the licensee, TUI Travel PLC, is entitled to acquire TUI AG's total brand portfolio in the event of a change of control.

A further change of control agreement was concluded in connection with the establishment of the joint venture TUI Cruises between Royal Caribbean Cruises Ltd. and TUI AG. The agreement gives the partner the right to demand termination of the planned joint venture and to purchase the share held by TUI AG at a price which is lower than the price of their own share.

Summary cash flow statement

€ million	2007	2006	Var. %
Net cash inflow from operating activities	+ 568.5	+ 466.5	+ 21.9
Net cash outflow/inflow from investing activities	- 711.6	+ 631.6	n. m.
Net cash inflow/outflow from financing activities	+ 699.0	- 1,045.7	n. m.
Change in cash and cash equivalents	**+ 555.9**	**+ 52.4**	**+ 960.9**

Net cash inflow from operating activities

The net cash inflow from operating activities of € 569 million in 2007 resulted from the consolidated earnings, totalling € 1,116 million adjusted for depreciation/amortisation, interest expenses and gains on disposals of fixed assets. The largest portion of these earnings was attributable to the operating results produced by tourism and shipping, the core businesses. The net cash inflow was reduced as a result of an increase in net current assets caused by the first-time consolidation of First Choice.

Net cash outflow from investing activities

In 2007, the net cash outflow totalled € 712 million. A cash outflow of € 1,169 million primarily resulted from the investments in property, plant and equipment as well as financial investments in the tourism and shipping divisions. Disposals of property, plant and equipment as well as investments generated a cash inflow of € 517 million. One of the key disposals in this context was the divestment of the Montreal Gateway Terminals in the shipping division.

Net cash inflow from financing activities

The net cash inflow from financing activities accounted for € 699 million. The main items were the cash inflow from the issue of a convertible bond in June 2007, the cash inflow from a new syndicated credit line taken up in the wake of the refinancing scheme for TUI Travel PLC in August 2007 and the private placements issued in October 2007 totalling € 2,034 million. Interest payments caused a cash outflow of € 298 million, up 28.0% year-on-year. The redemption of bonds and debt created a cash outflow of € 988 million.

Development of cash and cash equivalents

€ million	2007	2006	Var. %
Cash and cash equivalents at the beginning of the period	**688.7**	**607.5**	**+ 13.4**
Changes due to changes in consolidation	+ 441.7	+ 25.7	n. m.
Changes due to changes in exchange rates	- 72.3	+ 3.1	n. m.
Cash changes	+ 555.9	+ 52.4	+ 960.9
Cash and cash equivalents at the end of the period	**+ 1,614.0**	**+ 688.7**	**+ 134.4**

The detailed cash flow statement and more detailed information on the cash flow statement are provided in the consolidated financial statements and the section 'Notes on the cash flow statements' in the notes on the consolidated financial statements.

Analysis of investments

The development of fixed assets including property, plant and equipment and intangible assets as well as shareholdings and other investments is presented in the section 'Net assets' in the management report. Additional explanatory information is provided in the notes on the consolidated financial statements.

Additions to fixed assets

€ million	31 Dec 2007	31 Dec 2006	Var. %
Goodwill	36.5	9.1	+ 301.1
Other intangible assets	64.0	45.9	+ 39.4
Investment property	7.4	7.5	- 1.3
Property, plant and equipment	1,008.4	692.4	+ 45.6
Companies measured at equity	124.5	65.1	+ 91.2
Financial assets available for sale	12.1	35.4	- 65.8
Total	**1,252.9**	**855.4**	**+ 46.5**

Additions to property, plant and equipment by division

At € 1,008 million, investments in property, plant and equipment in 2007 had a part of 80.5% of additions to fixed assets. At € 570 million or 56.6%, shipping accounted for the largest portion of these additions. Tourism invested € 433 million in property, plant and equipment. This corresponded to 42.9% of the total volume. At € 6 million, 0.6% of the additions to property, plant and equipment related to central operations.

Investments in property, plant and equipment by division

€ million	2007	2006	Var. %
Tourism	432.8	500.9	- 13.6
Shipping	570.1	185.9	+ 206.7
Central operations	5.5	5.6	- 1.8
Continuing operations	1,008.4	692.4	+ 45.6
Discontinuing operations	–	–	–
Total	**1,008.4**	**692.4**	**+ 45.6**

Tourism

At € 275 million, the largest part of investments in the tourism division was invested in the TUI Hotels & Resorts sector, including an amount of € 197 million invested in ongoing and newly launched large projects in Jamaica, Mexico, Italy and the Cape Verde Islands.

Shipping

In the shipping division, investments accounted for € 570 million, primarily including additions of € 232 million from the commissioning of three container ships and payments on account for six new builds planned to be delivered in 2009 and 2010. In addition, investments of € 75 million were made for container equipment in the completed financial year.

Investment obligations

Order commitments

Due to agreements concluded in the 2007 financial year or in previous years, order commitments for investments totalled € 3,451 million at the balance sheet date, € 577 million of which were related to scheduled deliveries in the 2008 financial year. More detailed information is provided in the section 'Other financial obligations' in the notes on the consolidated financial statements.

Tourism

In tourism, order commitments for investments mainly related to the airlines' fleet renewal programmes. Ten aircraft (Boeing 737s) were delivered in the course of the year under the order commitments with Boeing, from purchase agreements and the exercise of options. Due to the merger with First Choice, order commitments rose by a further twelve aircraft (Boeing 787s) so that total orders at the end of 2007 amounted to 67 aircraft to be delivered by 2013. A further ten aircraft are planned to be delivered in 2008.

Shipping

In the shipping division, Hapag-Lloyd had ordered a total of ten container ships with a capacity of 8,750 TEU each, to be delivered by 2010, including two ships already to be delivered in the 2008 financial year. Eight ships were directly ordered, with long-term charter contracts concluded for two ships. CP Ships had concluded long-term charter contracts for nine container ships with a capacity of 4,250 TEU each in 2003 in order to expand its fleet. One of these ships was delivered in 2005, a further six in 2006 and two in 2007.

Financial position of TUI AG

The financial position of TUI AG was essentially characterised by its function as the TUI Group's parent company and central financing entity. The changes in equity outlined for the TUI Group, in particular changes in the capital stock and reserves as well as bonds, were also reflected in TUI AG's balance sheet.

Abbreviated balance sheet of TUI AG
(financial statements according to German Commercial Code)

€ million	31 Dec 2007	31 Dec 2006	Var. %
Fixed assets	8,123.6	9,888.4	- 17.8
Current assets	3,103.1	602.1	+ 415.4
Prepaid expenses	44.7	49.0	- 8.8
Assets	**11,271.4**	**10,539.5**	**+ 6.9**
Equity	3,706.3	3,616.5	+ 2.5
Special item with an equity portion	41.5	42.6	- 2.6
Provisions	1,054.3	730.3	+ 44.4
Bonds	3,403.5	2,709.5	+ 25.6
Financial liabilities	883.6	641.4	+ 37.8
Other liabilities	2,171.0	2,786.6	- 22.1
Liabilities	6,458.1	6,137.5	+ 5.2
Deferred income	11.2	12.6	- 11.1
Liabilities	**11,271.4**	**10,539.5**	**+ 6.9**

Development of TUI AG's capital structure

Equity

At € 3,706 million, TUI AG's equity rose slightly by 2.5%. The subscribed capital of TUI AG consists of no-par value shares, each representing an equal share of the capital stock. The proportionate share in the capital stock per share was around € 2.56. The issue of 225,720 employee shares in December 2007 hardly impacted the amount of subscribed capital. It remained almost flat at € 642 million. At the end of the financial year, subscribed capital thus comprised 251,245,575 shares. Capital reserves rose slightly, especially due to the issue of a convertible bond by € 23 million to € 2,420 million. Revenue reserves increased due to the allocations of the profit of the year. Net profit available for distribution grew by € 33 million to € 88 million. The equity ratio declined slightly to 32.9% (previous year: 34.3%).

The special item with an equity portion tax value adjustments on fixed assets remained almost unchanged.

Provisions

Provisions increased considerably by 44.4% to € 1,054 million. They comprised provisions for pensions of € 198 million (previous year: € 224 million) and other provisions of € 856 million (previous year: € 506 million). The increase was caused by higher provisions for anticipated losses for derivative financial instruments in other provisions.

Liabilities

TUI AG's liabilities totalled € 6,458 million and thus increased by € 321 million or 5.2%.

Authorisation of the Executive Board to repurchase and issue shares

The Annual General Meeting of 16 May 2007 authorised TUI AG's Executive Board to acquire own shares of up to 10% of the capital stock. The authorisation will expire on 15 November 2008 and replaces the authorisation granted by the AGM of 10 May 2006. To date, the possibility of acquiring own shares has not been used.

The AGM of 10 May 2006 resolved to authorise conditional capital of € 100 million. Accordingly, bonds with conversion options or warrants as well as profit-sharing rights and income bonds of up to a nominal amount of € 1.0 billion may be issued up to 9 May 2011. With the issue of a convertible bond with a nominal volume of € 694 million of 1 June 2007, € 64.1 million of the conditional capital was used.

Further unused authorised capital of € 317 million was available. It comprised authorised capital for the issue of employee shares of € 7 million. TUI AG's Executive Board has been authorised to use it by 17 May 2009. In addition to the authorised capital for the issue of employee shares, the AGM of 10 May 2006 resolved to create authorised capital to issue new shares against cash or non-cash contribution worth € 310.0 million. The issue of new shares against non-cash contribution was limited to € 128.0 million. TUI AG's Executive Board has been authorised to use it by 9 May 2011.

Report on Subsequent Events

After the completion of the 2007 financial year, the following transactions of special relevance to the TUI Group occurred.

Launch of an exchangeable bond

In mid-January TUI AG launched an equity-linked financing in shares of TUI Travel PLC using part of its stakes. The issue size of the bond will be € 450 million and has a maturity until 2013. TUI entered into contracts with Deutsche Bank and Nero Finance Limited, a non-Group and a Jersey incorporated company. As part of the bond issue, TUI AG sold shares in TUI Travel representing 10.7% of TUI Travel PLC's share capital to Deutsche Bank, which transferred this share block to Nero Finance. Nero Finance issued exchangeable bonds with a cash settlement option with shares in TUI Travel PLC. The bonds will pay a coupon of 4.50% p. a. If the owner of an exangeable bond do not exercise its exchange rights TUI is obliged to repurchase upon expiration of the five-year item its TUI Travel PLC shares. In exercising the exchange rights TUI is allowed to repurchase with a cash settlement option the TUI Travel PLC shares. Irrespective of the temporary sale of the share block, TUI AG will be entitled to instruct the purchaser of the TUI Travel PLC shares to exercise the vote according to the instructions given by TUI AG under a corresponding binding voting instructions agreement. Accordingly, TUI AG will continue to manage its stake in TUI Travel PLC as before. TUI Travel PLC will thus continue to be fully comprised in TUI's consolidated financial statements.

The funds raised through the equity-linked financing will be used to strengthen TUI AG's financial profile and for general corporate purposes. In connection with this equity-linked financing TUI has canceled a not utilised credit-facility about € 1.0 billion.

Examination of a merger of Hapag-Lloyd AG with TUI AG

At its meeting on 23 January 2008, the Supervisory Board instructed TUI AG's Executive Board to examine strategic options for the further development of the Group. In this context, a potential merger of Hapag-Lloyd into TUI AG will also be examined. First results of the examination are planned to be presented at the Supervisory Board meeting on 17 March 2008.

Merger of Germanwings, Eurowings and TUIfly

On 29 January 2008, TUI Travel PLC signed a memorandum of understanding with Deutsche Lufthansa AG and Albrecht Knauf Industriebeteiligung GmbH concerning the merger of the subsidiaries Hapag-Lloyd Fluggesellschaft mbH, Hapag-Lloyd Express GmbH, Germanwings GmbH and Eurowings Luftverkehrs AG. Following the completion of an audit of the accounts and corresponding detailed negotiations, the activities are planned to be operated under a joint independent holding. The merger will require approval by the relevant bodies of the companies affected and by the anti-trust authorities.

Risk Report Seizing opportunities and limiting risks. Proven control systems alongside early risk identification.

The TUI Group operates worldwide in its two core businesses, tourism and shipping. Due to the nature of these activities, they are exposed to various risks, depending on the type of business. These risks may arise from the Group's own entrepreneurial action or external factors. In order to identify and actively control these risks, the Group has introduced Group-wide risk management systems.

Risk policy

TUI's risk policy is aimed at continuingly and sustainably enhancing the Group's corporate value, achieving its medium-term financial goals and securing the Company's ongoing existence in the long term. It is thus an integral element of the Group's corporate policies.

In both core businesses, the TUI Group's subsidiaries operate in markets that showed above-average growth in recent years and will continue to grow in future. TUI is the European market leader in the tourism business in terms of turnover, above all due to its interest in TUI Travel PLC. The Group's shipping division is one of the world's five largest container shipping lines in terms of capacity. In order to be able to seize the market opportunities and leverage their potential for success, risks must be borne to an appropriate extent. The aim and object of the risk management system is to identify any risks early, assess them and limit them to such an extent that the economic benefit outweighs the risks.

Risk management

In order to meet its overall responsibility within the Group, TUI AG's Executive Board has set out policies incorporating the essential elements of the risk management system. They are applicable to all Group companies. The Board has also installed monitoring and controlling systems to regularly measure, assess and control the development of business and the related risks. Responsibility for the early identification, reporting and handling of business risks lies with the management of the respective companies, with the control functions resting with the relevant higher management level.

The Executive Board and the executive management employ multi-stage integrated reporting systems for risk management purposes. On the basis of the planning and control system, deviations of actual from projected business developments are analysed on a monthly basis so that risks that might jeopardize the Company's performance are quickly recognised.

In addition, special independently organised reporting systems have been introduced for the early identification of risks threatening the existence of the Company. Reporting of such risks is based on a separate system,

organised on its own alongside operational risk management. The aim of early risk identification is to provide reports, both on a regular and case-by-case basis, in order to identify potential risks within the Group companies, assess these risks on the basis of uniform parameters and summarise them in an overall Group-wide system. The risk management measures to be taken are implemented within the operative entities and mapped and supported by means of operative systems. Nevertheless, early risk identification (German Act on Control and Transparency, KonTraG) is interrelated with operational risk management.

The Supervisory Board is involved in this process by means of regular quarterly reports by the Executive Board and, where necessary, ad hoc reports at its regular meetings.

Risk management is supported by the Group-wide auditing departments, which examine transactions and operational workflows both regularly and on a case-by-case basis, checking that they function properly and are safe and efficient.

The methods and systems used in risk management and the frequency of controls are tailored to the respective types of risks and are continually checked, modified and adjusted to the changing business environments. The systems for early identification of risks threatening the Group's existence were audited by our auditors as part of the scope of the audit of the annual financial statements for 2007.

The regular risk reporting system did not identify any specific risks threatening the continued existence of individual Group companies or the entire Group, neither during the 2007 financial year nor at year-end.

Risk transfer

Risk management also encompasses the transfer of risks to third parties. Potential damages and liability risks from day-to-day business operations were covered as far as possible by insurance policies. The Group has concluded, inter alia, liability and property insurance policies customary in the industry, and insurance policies for its airlines and maritime operations. The extent of the insurance cover is regularly reviewed and adjusted where necessary.

Risks related to the future development

Environment and industry risks

The TUI Group's activities in the tourism and shipping divisions are exposed to macroeconomic and industry-specific risks. A detailed assessment of the overall economic development in the medium term is provided under 'Prospects'. Specific risks may arise in both divisions from the development of commodity prices, in particular oil products, as well as currency relations and interest rates. These developments may, inter alia, result in situations in which economic growth in countries of importance to the TUI Group's business may be weaker than expected. This may have an adverse effect on demand for services in both divisions and entail cost increases in the procurement of purchased materials and services or necessary products.

Risks from acquisitions and divestments

In the 2007 financial year, the TUI Group's tourism division, excluding the hotel companies, was merged with First Choice to form the new company TUI Travel PLC. Significant synergies were identified in this context. In order to leverage the synergy potential, corresponding measures and process steps were launched with a view to deriving a proper assessment of the future performance potential. There is nevertheless a risk of the actual synergy effects proving to be lower than expected.

The acquisitions relating to the realignment of the TUI Group have created goodwill. Should cash flows fall below the expected levels due to a sustained business downturn, impairments (e.g. amortisation of goodwill) might be required and would thus impact Group earnings.

Risks from information technology

Business processes in tourism and shipping strongly depend on the installed IT systems. In tourism, for instance, booking systems, capacity and yield management and all administrative areas are based on IT operations. Moreover, the internet is growing in importance, not only as a distribution channel but also as basic technology for the automation of business processes between business partners. IT systems are also used in the shipping division for the booking and implementation of transport services as well as capacity and yield control.

IT governance in the TUI Group is guaranteed by means of a Group-wide IT management body covering all business segments. It is supported by an expert team consisting of IT directors.

The IT systems used to secure business processes are continually reviewed and further developed. This also applies to existing measures to ensure data safety, e.g. by means of the increasing introduction of hard disk encryption in mobile terminals in order to control system access and limit non-availability risks. The safety measures also include the use of data encryption mechanisms for e-mails involving sensitive data, the Group-wide implementation of firewalls, virus scanners and the complete mirroring of all application-critical systems, websites and infrastructure components in two physically separate computer centres.

Business risks in tourism

In the tourism division, customers' booking behaviour is essentially affected by the general economic framework and social factors. Political events, natural disasters, epidemics or terrorist attacks may affect holidaymakers' decisions and thus the development of business in individual markets. Market risks increase with fiercer competition and the emergence of new market participants operating new business models, such as web-based distribution of travel services or low-cost airlines which may adversely impact sales by travel agencies.

A substantial business risk in tourism relates to the seasonal planning of flight and hotel capacity. In order to plan ahead, tour operators must forecast demand and anticipate trends in holiday types and destinations.

TUI's business model underlying its operations in TUI Travel PLC and TUI Hotels & Resorts is well suited to countering the ensuing occupancy risks:

- The Group's own airline and hotel capacity is considerably lower than the number of customers handled by its tour operators. This enables the Group to keep its product portfolio flexible by sourcing third-party flight capacity and hotel beds and concluding corresponding contractual agreements.
- The Group's presence in all major European countries allows it to limit the impact of regional fluctuations in demand on capacity utilisation in the destinations.
- Additional opportunities are offered by multi-channel distribution and direct and modular marketing of capacity via the internet.

Business risks in shipping

The major risks concerning the development of business in container shipping arise from external factors. If world trade and investment cycles in the shipping sector develop adversely trend, this may result in shipping capacity overhangs and thus adversely affect marine freight rates. In the individual trade lanes, cyclical fluctuations in regional economic activity may create imbalances in transport volumes. This risk typical of the industry is countered by means of an efficient capacity control system. Other essential factors limiting business risks are:

- activities in the East-West routes, i.e. trade lanes which are attractive in the long-term,
- membership of the Grand Alliance, one of the world's leading liner shipping consortia.

Financial risks

The TUI Group operates a central finance management system that performs all essential transactions with the financial markets.

In the wake of the merger of TUI's tourism activities with First Choice to form TUI Travel PLC, a division of labour was introduced for the central cash management and the central financial risk management system, previously managed exclusively by TUI AG. TUI Travel PLC now performs these functions for the tourism sector, in line with the Group's unchanged risk policy, while TUI AG will continue to hold this functions for all other business operations of the Group.

The individual financing categories, rules, competences and workflows as well as the limits for transactions and risk items are defined by policies. The trading, settlement and controlling functions are segregated in functional and organisational terms. Compliance with the policies and limits is constantly monitored. As a matter of principle, all hedges entered into by the Group must be supported by underlying recognised or future transactions. Recognised standard software is used for evaluating, monitoring and reporting on the hedges entered into.

Financial instruments

In the TUI Group, financial risks mainly arise from payment transactions in foreign currencies, the need for fuel (aircraft fuel and bunker oil) as well as financing via the money and capital markets. In order to limit risks arising on changes in exchange rates, market prices and interest rates for the underlying transactions, TUI uses derivative financial instruments not traded on stock markets. These are primarily fixed-price transactions (e.g. forward transactions and swaps) and, to a lesser extent, options. These transactions are concluded at arm's length with first-rate companies operating in the financial sector. Currency translation risks from the consolidation of Group companies not reporting in euros are not hedged.

Detailed information about hedging strategies, risk management and the scope of financial transactions at the balance sheet date is provided in the section on 'Financial instruments' in the notes on the consolidated financial statements.

Liquidity management

In the course of the annual Group planning process, TUI prepares a multi-annual finance budget. In addition, TUI produces a monthly rolling liquidity plan covering a period of one year. The liquidity plan covers all controlled financing categories of the Group.

Both money and capital market instruments as well as bilateral bank loans and syndicated credit facilities are used to meet the Group's financing requirements. At the balance sheet date, TUI AG had a syndicated credit facility of € 1.0 billion. This syndicated credit facility was not used at the balance sheet date. TUI terminated this syndicated credit facility in January 2008 in the wake of a financing transaction worth € 0.5 billion. These financing measures have also led to the elimination of the restrictions from TUI AG's senior notes of € 2.0 billion for TUI Travel PLC. TUI Travel PLC thus has separate access to banks and the capital market and is able to autonomously engage in liquidity provisioning for its tourism companies. Liquid funds and unused bank facilities ensure that TUI always has an appropriate cash reserve.

In order to meet its long-term financing requirements, TUI had issued a total of € 3.4 billion in the capital market as at the balance sheet date, comprising a total of seven bonds including a bond shown as hybrid capital. The bonds had different structures and maturities. Future repayment or refinancing risks were limited by means of an optimisation of the maturities and volumes of these bonds.

In August 2007, TUI Travel PLC was granted a syndicated credit facility of GPB 0.8 billion by a banking consortium. This facility will mature on 30 June 2012. As at the balance sheet date, GBP 0.6 billion were used.

In order to meet the regulatory requirements (in particular by the Civil Aviation Authority) placed on TUI Travel PLC as a tour operator in the UK, Ireland and Scandinavia, TUI Travel PLC concluded a syndicated bank facility (bonding facility in the form of credits by way of bank guaranties) of GBP 0.4 billion. The bonding facility will mature on 31 March 2008 and

may be extended until 31 March 2009. As at the balance sheet date, GBP 0.4 billion were used under this facility.

TUI AG's financial liabilities taken up via the capital market, TUI Travel PLC's syndicated credit facility and TUI Travel PLC's syndicated bonding facility comprise a number of obligations. Concerning for example TUI Travel PLC's syndicated credit facility and syndicated bonding facility, the obligations comprise of the duty to comply with financial covenants covering (a) compliance with an EBITDAR-to-net interest expense ratio measuring the Group's relative charge from the interest result and the lease and rental expenses; and (b) compliance with a net debt-to-EBITDA ratio, calculating the Group's relative charge from financial liabilities. The covenants also restrict TUI Travel PLC's scope for encumbering or selling assets, acquiring other companies or shareholdings and effecting mergers. The capital market instruments as well as the syndicated credit facility and bonding facility comprise additional contractual clauses typical of financing instruments of this type. Non-compliance with these obligations awards the lenders the right to call in the facilities or terminate the capital market instruments. TUI's and TUI Travel PLC's business transactions and the expected business development are continually checked for compliance with the contractual provisions.

More detailed information on financing and financial debt is provided in the section 'Financial situation' in the management report and under 'Liabilities' in the notes on the consolidated financial statements.

Risks from pension obligations

Pension funds have been set up to fund pension obligations, in particular in the UK. These funds are managed by independent fund managers who invest part of the fund assets in securities. The performance of these funds may thus be adversely affected and impaired by the development of the financial markets.

The TUI Group's fully or partly funded pension obligations totalled € 1.8 billion, while the fair value of external plan assets amounted to € 1.5 billion. At the balance sheet date, the funded pension obligations thus exceeded plan assets by € 0.3 billion. Combined with the fair value of pension obligations not covered by funds of € 0.5 billion, this resulted in a net fair value of pension obligations of € 0.8 billion, fully covered by pension provisions. More detailed information on the development of pension obligations is provided under the item 'Provisions for pensions and similar obligations' in the notes on the consolidated financial statements.

Other financial liabilities

At the balance sheet date, the TUI Group had other financial liabilities of € 4.1 billion (previous year: € 3.9 billion). These liabilities mainly related to order commitments for investments. Around 18% of the total amount had a remaining term of up to one year.

At the balance sheet date, financial liabilities from operating lease, rental and charter agreements amounted to € 5.3 billion (previous year: € 4.5 billion). At € 2.3 billion, ships and containers accounted for the largest

proportion of financial liabilities from operating lease, rental and charter agreements, with € 1.1 billion relating to aircraft, € 0.6 billion to hotels and € 1.3 billion to other buildings and Other. Around 21% of the total amount had a remaining term of up to one year.

Detailed information on other financial liabilities is provided in the corresponding section in the notes on the consolidated financial statements.

Environmental risks

The TUI Group's current Group companies as well as companies already divested are or were involved in the use, processing, extraction, storage or transport of materials classified as damaging to the environment or human health. TUI takes preventive measures to counter environmental risks arising from current business transactions and has taken out insurance policies for certain environmental risks. Where environmental risks from divestment actions have not passed to the acquirers, TUI has created appropriate provisions in the balance sheet in order to cover potential claims.

Contingent liabilities and litigation

Contingent liabilities are potential liabilities not recognised in the balance sheet. At the balance sheet date, they amounted to € 71 million (previous year: € 214 million). The decrease was mainly resulted by the reduction in guarantees and warranties to settle ongoing transactions from former plant engineering and shipbuilding activities.

Neither TUI AG nor any of its subsidiaries are involved in pending or foreseeable court or arbitration proceedings which might have a significant impact on the Group's business position. This also applies to actions claiming warranty, repayment or any other remuneration brought forward in connection with the divestment of subsidiaries implemented over the last few years. As in previous years, the respective Group companies formed appropriate provisions to cover any potential financial charges from court or arbitration proceedings.

Information on contingent liabilities and litigation is also provided in the corresponding sections in the notes on the consolidated financial statements.

Remuneration Report

Upon the proposal of the Presiding Committee, the Supervisory Board regularly discussed and reviewed the structure of the remuneration system for the Executive Board. The remuneration of the Executive Board was fixed by the Presiding Committee, basing its decision on the size and global operations of the Company, its economic position and the level and structure of board remuneration in similar companies. In addition, the responsibilities and performance of each individual Board member were taken into account. The remuneration for Mr Peter Long and Mr Peter Rothwell is respectively was fixed by TUI Travel PLC's Remuneration Committee.

Remuneration of the Executive Board

The remuneration of TUI AG's Executive Board members comprised fixed and variable components. The variable remuneration components consist of a management bonus and a bonus under a long-term incentive programme. For Executive Board members based in Germany, the level of the management bonus was linked to Group earnings, earnings by the divisions in the completed financial year and personal performance factors. The management bonus was calculated on the basis of the respective earnings before interest, tax and amortisation of goodwill (EBITA). For Mr Peter Long, the management bonus is dependent on a personal assessment factor and the degree of achievement of certain predefined targets. In addition, Executive Board members are entitled to a company cars and driver services as well as travel benefits.

As part of the long-term incentive programme, the Germany-based Executive Board members received a bonus for the 2007 financial year, which was translated into phantom stocks in TUI AG on the basis of an average share price. Phantom stocks to be granted were calculated on the basis of earnings before tax and amortisation of goodwill (EBTA). The translation into phantom stocks was based on the average share price of the 20 trading days following the Supervisory Board meeting at which the annual financial statements were adopted. The number of phantom stocks granted for a financial year is thus not determined until the following year. Following a lock-up period of two years, the entitlement to cash payment from this bonus can be exercised individually by the Executive Board members within predetermined timeframes. The lock-up period does not apply to members resigning from the Executive Board. The level of the cash payment depends on the average price of TUI AG shares over a period of 20 trading days following the exercise date. There is no absolute or relative return or price targets. A cap is provided for extraordinary unexpected share price developments.

The long-term incentive programme for Mr Peter Long consisted of shares granted by TUI Travel PLC as a function of personal assessment factors established by TUI Travel PLC's Remuneration Committee.

Development of aggregate phantom stocks in TUI AG

	Units
Balance as at 31 Dec 2006	**503,511**
Phantom stocks granted for the 2006 financial year	963
Phantom stocks exercised	0
Increase/Decrease of phantom stocks[1]	- 10,257
Balance as at 31 Dec 2007	**494,217**

[1] upon departure of Mr Peter Rothwell

On 31 December 2007, former Executive Board members held 6,486 phantom stocks (previous year: 0 stocks). Mr Peter Long held equity rights to 1,905,423 shares in TUI Travel PLC.

Provisions totalling € 9,822 thousand (previous year: € 8,481 thousand) were formed for the entitlements under the long-term incentive programme, including the granting of phantom stocks for the 2007 financial year.

The valuation of the phantom stocks in TUI AG and the share grants in TUI Travel PLC resulted in a profit of € 2,207.0 thousand (previous year: loss of € 1,107.1 thousand) for the Executive Board members including a former Executive Board member in the 2007 financial year. In case of Mr Peter Long the change in the value of shares relates to shares that were awarded to Mr Long prior to 3 September 2007 by First Choice and were passed into TUI Travel PLC within the merger.

Changes in the value of the phantom stock portfolios of Executive Board members

€ '000	2007	2006
Dr. Michael Frenzel (Chairman)	703.6	- 344.2
Horst Baier	–	–
Michael Behrendt	–	–
Sebastian Ebel[1]	–	- 142.3
Dr. Peter Engelen	392.2	- 190.2
Rainer Feuerhake	748.2	- 376.1
Peter Long	249.0	–
Christoph R. Mueller[1]	1.8	–
Peter Rothwell[1]	112.2	- 54.3
Total	**2,207.0**	**- 1,107.1**

[1] upon their departure

Management Report

Remuneration for individual Executive Board members

€ '000	Non-performance-related remuneration	Performance-related remuneration	Long-term incentive programme	Remuneration for Supervisory Board mandates in the Group	Total 2007	Total 2006
Dr. Michael Frenzel (Chairman)	1,104.5	2,893.6	290.8	189.4	4,478.3	1,996.6
Horst Baier (since 9 November 2007)	67.5	95.9	25.3	7.0	195.7	–
Michael Behrendt	498.0	1,335.2	174.5	0.0	2,007.7	655.3
Sebastian Ebel (until 31 August 2006)	–	–	–	–	0.0	350.1
Dr. Peter Engelen	468.9	1,156.1	174.5	52.8	1,852.3	925.7
Rainer Feuerhake	654.9	1,874.9	232.6	229.1	2,991.5	1,372.0
Peter Long (since 3 September 2007)	587.0	389.2	184.0	–	1,160.2	–
Christoph R. Mueller (until 3 September 2007)	325.3	377.4	–	58.6	761.3	283.9
Peter Rothwell (until 8 November 2007)	1,085.7	1,769.3	82.4	7.3	2,944.7	1,784.4
Total	**4,791.8**	**9,891.6**	**1,164.1**	**544.2**	**16,391.7**	**7,368.0**
Previous year	3,575.4	3,126.7	17.0	648.9	7,368.0	

As in 2006, the members of the Executive Board did not receive any loans or advances in the 2007 financial year.

Remuneration in the event of a termination of position

a) Pension entitlements

Pensions were paid to former Executive Board members who reached the predefined age limit or were permanently incapacitated. The pension for Board members based in Germany was calculated on the basis of pensionable pay, oriented to an Executive Board member's fixed remuneration. The pension level was determined as a percentage of pensionable pay. This percentage was 50% for the first employment contract period. Depending on the number of employment contract periods, this percentage may rise to up to 80%. Mr Peter Long is not entitled to a pension from TUI AG. In place of granting a pension entitlement, an amount equal to 50% of the fixed salary is paid into a pension fund. This amount is part of the bonus payment.

Under certain circumstances, widows of Executive Board members will receive a widow's pension of 60% of the pension for their lifetime or until remarriage. Children of Executive Board members receive an orphan's pension, maximally paid until they are 25 years of age. The orphan's pension amounts to 20% of the pension for orphans having lost one parent, and 25% for orphans having lost both parents.

Pension entitlements/ Addition to or reversal of pension provisions

€ '000	Annual pension	Addition to or reversal of pension provisions
Dr. Michael Frenzel (Chairman)	720.0	- 642.8
Horst Baier	200.0	1,294.5
Michael Behrendt	320.0	- 370.3
Dr. Peter Engelen	240.0	- 340.7
Rainer Feuerhake	424.0	- 404.7

Reversals of pension provisions arose in 2007 as the interest rate used for calculation was raised to 5.5% per annum in 2007 (previous year: 4.5% per annum). For a new Executive Board member, the required amount was added to the pension provision.

At the balance sheet date, pension obligations for active members of the Executive Board totalled € 19,929 thousand (previous year: € 20,663 thousand). Pension provisions for former members of the Executive Board and their dependents amounted to € 34,780 thousand (previous year: € 47,811 thousand) at the balance sheet date.

The pension obligations for German beneficiaries were funded via the conclusion of pledged reinsurance policies. As the reinsurance policy fully covered the pension obligations for former and active Executive Board members, the insurance was deducted as an asset from the pension obligation. In the 2007 financial year, pension provisions for active Board members fell by € 464 thousand (in the previous year, an amount of € 1,988 thousand was transferred to pension provisions).

In the 2007 financial year, the remuneration paid to former Executive Board members and their surviving dependents totalled € 7,011 thousand, including an one-off remuneration of € 777 thousand to a retired Board member (previous year: € 5,652 thousand in total). The provision to satisfy non-competition clauses and potential transition payment rights was increased by € 100 thousand (previous year: € 3,250 thousand).

b) Transition payments

Executive Board members retiring upon the expiry of their term of office either for lack of reappointment or renewal of their term of office or because the Company terminates their contract of employment are entitled to a transition payment until the date at which the pension payments fall due. The transition payments correspond to the pension rights. Any income received by the beneficiaries from self-employment or employment, pensions or transition payments by other companies or payments received from insurance companies is deducted from the entitlement to the transition payment.

c) Change of control agreement

In event of loss of Board membership through a change of control or through executing the right granted to Board members, specifically accorded for this case, of resigning from their office and terminating the contract of employment as a Board member every Board member is entitled to receive a remuneration for his financial entitlements for the remaining period of his contract of employment as Board member. The performance-related remuneration and the granting of phantom stocks for the remaining term of the contract of employment are based on the average remuneration received in the last three financial years. The same provision applies to the remuneration for Supervisory Board mandates hitherto received from Group companies.

The employment contracts for Board members do not comprise an explicit severance payment entitlement upon a premature termination of the service agreement. However, a severance payment may be paid under an individual termination agreement.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members comprised a fixed component and variable components. They were determined in accordance with section 18 of TUI AG's Articles of Association, made permanently accessible to the public on the internet. The chairman of the Supervisory Board received three times the remuneration of a regular member, the deputy chairperson and the other members of the Presiding Committee one and a half times the total remuneration of a regular member. A separate remuneration was paid for membership and chairmanship of committees.

The members of the Supervisory Board received a fixed remuneration of € 40,000, payable upon the completion of the financial year, besides reimbursement of their expenses.

In addition, the Supervisory Board received a remuneration oriented to the Company's short-term performance of € 100 per € 0.01 of the earnings per share reported for the completed financial year.

The Supervisory Board also received a remuneration related to the Company's long-term performance. The long-term variable remuneration consisted of a basic amount of € 20,000 annually. This basic amount is paid upon the completion of the third financial year following the granting of the remuneration and increases or decreases in line with the percentage increase or decrease in earnings per share during that period. A change in earnings per share of € 0.01 leads to an increase or decrease of € 100 on the basic amount. However, the amount payable must not under any circumstances exceed 250% of the basic amount.

Remuneration of the Supervisory Board

€ '000	2007	2006
Fixed remuneration	979.2	973.5
Short-term variable remuneration	149.3	–
Long-term variable remuneration	1,135.0	486.4
Remuneration for committee memberships	160.0	160.0
Remuneration for TUI AG Supervisory Board mandate	2,423.5	1,619.9
Remuneration for Supervisory Board mandates in the Group	415.0	319.3
Total	**2,838.5**	**1,939.2**

In addition, travel expenses and other expenses totalling € 65 thousand (previous year: € 74 thousand) were reimbursed. Total remuneration of the Supervisory Board members thus totalled € 2,904 thousand (previous year: € 2,013 thousand).

Apart from the work performed by the employees' representatives in the framework of their contracts of employment, the members of the Supervisory Board did not provide any personal services such as consultation or agency services for TUI AG or its subsidiaries in the 2007 financial year.

Remuneration for individual Supervisory Board members for 2007

€ '000	Fixed remune-ration	Short-term variable remune-ration	Long-term variable remune-ration	Remune-ration for committee member-ship	Remunera-tion for Supervisory Board mandates in the Group	Total
Dr. Jürgen Krumnow (Chairman)	120.0	18.3	150.0	20.0	99.9	408.2
Jan Kahmann (Deputy Chairman)	60.0	9.2	75.0	–	–	144.2
Andreas Barczewski	40.0	6.1	39.2	–	–	85.3
Jean-Claude Baumgarten	40.0	6.1	39.2	–	–	85.3
Jella Susanne Benner-Heinacher	40.0	6.1	50.0	–	–	96.1
Sepp Dieter Heckmann	40.0	6.1	39.2	–	–	85.3
Frank Jacobi (since 15 August 2007)	15.0	2.3	7.5	–	–	24.8
Uwe Klein	60.0	9.2	75.0	20.0	72.8	237.0
Christian Kuhn (until 31 December 2007)	40.0	6.1	50.0	–	38.3	134.4
Dr. Dietmar Kuhnt	40.0	6.1	50.0	60.0	93.6	249.7
Roberto López Abad	40.0	6.1	50.0	–	–	96.1
Dieter Lübkemann	40.0	6.1	24.9	–	76.2	147.2
Dr. h.c. Abel Matutes Juan	40.0	6.1	50.0	–	–	96.1
Petra Oechtering (until 15 August 2007)	37.5	5.7	58.4	–	–	101.6
Carmen Riu Güell	60.0	9.2	75.0	–	–	144.2
Dr. Manfred Schneider	40.0	6.1	50.0	20.0	–	116.1
Roland Schneider	46.7	7.1	42.6	–	–	96.4
Ilona Schulz-Müller	40.0	6.1	50.0	20.0	–	116.1
Olaf Seifert	40.0	6.1	50.0	20.0	–	116.1
Henry Sieb	40.0	6.1	39.2	–	34.2	119.5
Dr. Franz Vranitzky	60.0	9.2	69.6	–	–	138.8
Total	**979.2**	**149.3**	**1,135.0**	**160.0**	**415.0**	**2,838.5**

The entitlements of the Supervisory Board members under the long-term remuneration arrangement were covered by a provision totalling € 1,565 thousand (previous year: € 430 thousand).

Research and Development IT-based innovation in tourism and shipping.

In order to remain competitive in an environment characterised by new technologies and dynamic markets, the TUI Group had to steadily further develop its services portfolio but also its internal processes. Development activities focused on the use of new information technologies and an expansion of the service range in order to secure sustained growth of the Group.

In tourism, the Group continually expanded its online product portfolio and adjust it to new technologies. At the same time, concepts for new websites were developed in order to be able to handle the growing number of online bookings. Activities in shipping focused on the continual extension of electronic data and information exchange with customers and the promotion of the high IT standards applied throughout the world.

Innovation in tourism

In the completed financial year, innovation in TUI Travel PLC mainly related to the Mainstream and Online Destination Services Sectors. Both Sectors primarily expanded the functions available on the respective websites. In addition, the Mainstream Sector expanded its travel portfolio.

Web-based hotel evaluation

In the Northern Europe Sector the design of the Thomson homepage was expanded to include hotel evaluation facilities, provided by Holidays Uncovered and TripAdvisor, the internet platforms offering customer evaluation systems. Due to the introduction of comprehensive internet applications for travel agencies in the UK, the travel shop staff can now engage in interactive sales dialogue with their customers, showing them evaluations and videos of the hotels on offer. The system has been launched in 88 travel shops for the pilot phase and is planned to be rolled out to all shops in 2008.

New web sites

In the Central Europe sector, the Airtours and TUIfly websites were redesigned and provided with additional functions. Furthermore, the websites of numerous TUI companies were revised and extended. In the Northern Europe sector, an online guide was introduced, allowing customers to book e.g. excursions and restaurants before departure.

Contour reservation system

Following the introduction of the new reservation system Contour in TUI France in 2006, the system was rolled out to tour operator Nouvelles Frontières in the completed financial year. Apart from a last-minute search engine, the platform offers individual packaging functions for holiday tours. The new travel brochure for the 2008 summer was also implemented on the platform.

Online Destination Services

A uniform revenue management system is being developed for the Online Destination Services Sector. Its purpose will be to optimise internal processes by means of extended functions. To this end, a detailed concept was devised and a pilot phase prepared in 2007. And the introduction of a new booking migration system improved data exchange with hotel systems in the Online Destination Services Sector. Thanks to a new interface, bookings can now be directly exported into the data bases operated by the suppliers.

'Toscana Resort Castelfalfi'

In March 2007, the largest tourism project in Tuscany was initiated with the purchase of a plot of land in that region. Based on the 'Land Fleesensee' project model, the 'Toscana Resort Castelfalfi' is to be built on land covering an area of eleven square kilometres.

Innovation in shipping

Electronic data exchange

As in previous years, Hapag-Lloyd focused its development activities in particular on information technology, primarily the development of the Freight Information System (FIS), i.e. the internal processing system, and the ongoing expansion of the e-business sector. With the integrated workflow system, workflows are easier to interlink worldwide. Continuous improvements in IT systems strongly support efficiency enhancements.

FIS

With FIS Documentation/Invoice, a newly developed system was introduced for the preparation of freight documents and invoices. It enables the central electronic filing of freight documents and thus facilitates paperless transactions by means of a largely automated process for the preparation of consignment notes on the basis of electronically received shipping instructions.

The FIS Contract & Fleet System controls all changes in the container fleet. The new FIS module focuses on selectively returning leased containers to the leasing companies. The containers are identified in transit and channelled to the return sites. Should any deviations occur, the workflow system automatically informs the users. The fleet is thus easier to control so that leased containers can be used more selectively and efficiently in order to cushion seasonal peaks.

E-business

In order to further improve the exchange of data and information with customers and suppliers, Hapag-Lloyd made changes to its website. Its homepage was optimised so that customers now immediately recognise any information of relevance to transportation. Direct links connect the homepage with underlying modules, enhancing the user-friendliness of the new system.

Human Resources Changes in headcount and personnel structure due to merger with First Choice Holidays PLC.

In the 2007 financial year, the TUI Group's headcount rose to 68,521. This increase was primarily attributable to the merger with First Choice Holidays PLC.

Changes in headcount and personnel structure

At the balance sheet date, the TUI Group's worldwide headcount rose by 27.1% year-on-year. The structure of the Group's personnel changed due to the merger with First Choice Holidays PLC. At 87.3%, the tourism division continued to employ the largest proportion of personnel, up from 82.3% in 2006. The shipping division accounted for 12.0% of employees, compared with 15.9% in the previous year. The proportion of employees working for central operations changed substantially due to the transfer of the tourism functions. It fell to 0.7% of the overall workforce, down from 1.8% in 2006.

Personnel by division

	31 Dec 2007	31 Dec 2006	Var. %
Tourism	59,832	44,409	+ 34.7
TUI Travel PLC	47,705	33,696[1]	+ 41.6
TUI Hotels & Resorts	12,127	10,713	+ 13.2
Shipping	8,243	8,571	- 3.8
Container shipping	8,031	8,376	- 4.1
Cruises	212	195	+ 8.7
Central operations	446	950	- 53.1
Total	**68,521**	**53,930**	**+ 27.1**

[1] Corresponds to the TUI entities merged in 2007

Tourism

The employees shown under TUI Travel PLC in 2006 are those employed by the TUI Group's tourism entities which were transferred to TUI Travel PLC in the completed financial year. The proportion of employees in tourism changed substantially due to the merger with First Choice Holidays PLC; it rose by a total of 34.7%. With the merger, the tourism functions of central operations were also transferred to TUI Travel PLC. Accordingly, a total of 15,423 employees were newly added to the tourism division.

The TUI Hotels & Resorts sector increased its headcount by 13.2% year-on-year to 12,127. This growth resulted primarily from capacity increases due to the opening of new hotels.

Shipping

In the shipping division, the headcount declined by 3.8% to 8,243 primary due to divestments.

Central operations

The central operations sector recorded a significant decline in headcount of 53.1% to 446 due to the strategic transfer of the tourism functions and the restructuring measures in the corporate centre. The number of employees working for the corporate centre dropped by 48.8% from 465 in 2006 to 238, including 195 employees employed by TUI AG.

Seasonal development

The headcount development during the year was significantly influenced by the seasonal fluctuations in employment in tourism, in particular in the hotel companies and incoming agencies. Temporary employment of seasonal staff resulted in an average headcount of 5,748 in the incoming agencies sector in the summer months from June to August, compared with 3,584 employees at year-end. In the TUI Hotels & Resorts sector, the average headcount was 16,992 in the summer months, compared with 12,127 employees at year-end.

International headcount

At 80.6%, a large part of TUI Group employees worked in Europe. 28.2% of Group employees worked in the UK, 16.2% in Germany, 12.2% in France and the Benelux countries, 12.8% in Spain and 2.8% in the Nordic countries. Group companies outside Europe accounted for 19.4% of the overall workforce, with most of these employees working for Hapag-Lloyd and First Choice in America and Asia.

Personnel by region

	31 Dec 2007	31 Dec 2006	Var. %
Germany	11,118	11,112	+ 0,1
UK/Ireland	19,335	12,975	+ 49,0
Nordic countries	1,937	1,599	+ 21,1
France/Benelux countries	8,347	7,202	+ 15,9
Spain	8,759	7,656	+ 14,4
Rest of Europe	5,722	5,729	- 0,1
America	7,215	4,149	+ 73,9
Rest of world	6,088	3,508	+ 73,5
Total	**68,521**	**53,930**	**+ 27,1**

Personnel costs

Personnel costs declined by 3.7% to € 2,345.1 million in the 2007 financial year.

Personnel costs

€ million	2007	2006	Var. %
Wages and salaries	1,898.6	1,968.4	- 3.5
Social security contributions	446.5	467.0	- 4.4
Total	**2,345.1**	**2,435.4**	**- 3.7**

Environmental Protection Implementation of environmental quality standards. Monitoring of environmental indicators.

The integration of environmental quality standards and the active implementation of such standards in all Group areas are of strategic relevance for TUI AG's sustainable business policy. Climate protection, biodiversity and the protection of seas and oceans, in particular, are key prerequisites for ecologically sustainable operations in the TUI Group's tourism and shipping divisions.

Group environmental performance indicators

Environmental monitoring

In the course of the merger between TUI's tourism division and First Choice to form TUI Travel PLC, Group reporting was adjusted to the new structure of the Company, taking account of international reporting standards (including the G3 Guidelines of the Global Reporting Initiative). In order to maximise the continuity and transparency of the environmental indicators presented, the presentation of the key indicators follows the approach adopted in 2006.

Energy consumption

As before, the use of fossil fuels in airline and shipping operations accounted for the largest proportion of the Group's total energy consumption in 2007. A total of 250,436 tera joule (TJ) of energy was consumed in 2007 (previous year: 232,426 TJ). Due to the consolidation of First Choice Airways and Island Cruises within of TUI Travel PLC and the fleet expansion at Thomson Cruises, a year-on-year comparison of absolute energy consumption is only of limited use.

Total specific fuel consumption by TUI's airlines (without First Choice Airways) amounted to 3.12 litres of aircraft fuel per 100 passenger kilometres (pkm) in 2007 (previous year: 3.08 litres per 100 pkm). They were therefore again in comparison among Europe's most efficient airlines. First Choice Airways reported for the period of consolidation from September to December 2007 a fuel consumption of 3.11 litres per 100 pkm.

In container shipping, specific energy consumption per standard container (TEU) and sea mile (sm) totalled 2.31 mega joule (MJ) in 2007 (2006: 2.41 MJ/TEU/sm). Specific consumption of the entire cruise fleet stood at 3.28 MJ per passenger and 100 sm (2006: 3.65 MJ/passenger/sm).

Carbon dioxide emissions

One of the TUI Group's key environmental indicators are emissions of carbon dioxide (CO_2) of all business sectors. In the 2007 financial year, total CO_2 emissions amounted to 17.19 million tonnes (2006: 15.99 million tonnes). CO_2 emissions per pkm across all TUI airlines (without First Choice Airways) stood at 80 g (2006: 79 g/pkm). For the period of consolidation from September to December 2007 First Choice Airways reported a CO_2 emission per pkm of 78 g. CO_2 emissions by the container ship fleet

amounted to 163 g/TEU/sm (2006: 174 g/TEU/sm) in the 2007 financial year. For the cruise segment, specific emissions totalled 231 g CO_2 per passenger and 100 sm (2006: 283 g CO_2/passenger and 100 sm).

Continuous quality improvement by means of certification

Hotels newly certified in the 2007 financial year:
Dorfhotel Sylt (ISO 14001)
Dorfhotel Schönleitn (ISO 14001)
Dorfhotel Seeleitn (ISO 14001)
Grecotel El Greco (ISO 14001)
Grecotel Club Marine Palace (ISO 14001)
MAGIC LIFE Bodrum Imperial (ISO 14001/9001)
MAGIC LIFE Kemer Imperial (ISO 14001/9001)
MAGIC LIFE Marmaris (ISO 14001/9001)
MAGIC LIFE Sarigerme Imperial (ISO 14001/9001)
MAGIC LIFE Seven Seas Imperial (ISO 14001/9001)
MAGIC LIFE Sirene Imperial (ISO 14001/9001)
MAGIC LIFE Waterworld Imperial (ISO 14001/9001)
ROBINSON Club Cala Serena (EMAS)

Complete list: www.tui-environment.com

The environmental management systems of the individual Group companies are continually adjusted to the requirements of international environmental standards. The systematic improvements in environmental aspects regularly focus on hotel companies. In 2007, twelve facilities were newly certified under ISO 14001, seven hotels were certified under ISO 9001 and one Robinson Club was newly certified under EMAS. By year-end, the environmental management systems of a total of eleven Robinson Clubs, nine Magic Life Clubs, two Grecotels, seven Iberotels, four Nordotels, nine Grupotels, four Dorfhotels, one Jaz Hotel and three hotels of the Sol y Mar Group were certified according to ISO 14001.

In shipping, Hapag-Lloyd AG's existing environmental management system was extended to include the business operations of the former CP Ships, which have now been fully integrated, and certified under ISO 14001 and ISO 9001 by Germanischer Lloyd.

Strategic partnerships and cooperation schemes

See TUI's Sustainability Reporting 2006/2007 for a more detailed presentation of TUI's multi-stakeholder dialogue

In early February 2007, TUI presented itself in a shared stand with the 'Convention on Migratory Species' and EUROPARC Federation, the umbrella organisation of large nature reserves in Europe, at the 17th travel fair ('Reisepavillon') in Hanover. With around 300 exhibitors from 30 countries and around 120 events in the overall programme, this international trade fair provided information about the various facets of sustainable tourism. Presentations by TUI included information on the partnership scheme on the 'Year of the Dolphin', implemented in cooperation with the United Nations Environment Programme, the importance of the EUROPARC Charter for Protected Areas and the sustainable use of the charter for TUI's environmental activities.

In 2007, TUI AG continued its pro-active commitment as a founding member of econsense – Forum for Sustainable Development of German Business.

Since the end of 2007, the activities within the Tour Operators' Initiative for Sustainable Tourism Development aimed at implementing a sustainable development of tourism with the support of the United Nations Environment Programme of the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the United Nations World Tourism Organization (UNWTO) have been continued by TUI Travel PLC, which pools all tourism activities of the Group.

In the shipping division, Hapag-Lloyd's environmental activities included in particular research projects aiming to reduce emissions and increase energy efficiency in shipping. These projects were carried out in cooperation with the US Environmental Protection Agency and the EU. In addition, the container line is a member of the Container Owner Association which engages in dialogue with manufacturers to promote the use of environmentally friendly paints.

Report on Expected Developments Action programme in tourism is being implemented. Shipping benefiting from synergies.

Economic environment

Macroeconomic situation

General development

Economists expect the global economic growth of previous years to continue at a similar rate over the next few years. However, the International Monetary Fund (IMF, World Economic Outlook, October 2007) expects a slight slowdown in the growth rate, in line with expectations for 2007. According to its forecast, worldwide GDP will grow by 4.8% in 2008. Growth will thus slow, primarily due to the sub-prime crisis in the US and the increase in oil prices and inflation trends, as in 2007. The IMF expects the sub-prime crisis in particular to also trigger larger uncertainty in the international financial markets. Concerning oil prices, the IMF currently forecasts an increase of 9.5% in 2008. As in 2007, world trade will outperform the world economy at growth of 6.7%. For the period 2009 to 2012, experts expect the world economy to grow on average by 5.1% annually, whereas world trade is expected to grow by 7.2%.

Development of the regions

An analysis of the development for the individual economic regions shows that all regions record stable, in some cases slightly slower, growth rates. For the US, the IMF forecasts GDP to grow by 1.9% in 2008, matching the expected growth rate for 2007. Overall, demand in the US is expected to decline due to stricter lending practices, in particular in the property market and related sectors. Growth in the eurozone is expected to be at 2.1% in 2008, slightly down on the forecast for 2007. Besides the volatility of oil prices and a slowdown in growth in the US, the main growth risks will include stricter lending practices by the banks. Asia is also expected to show a slowdown in economic growth, with Japan for instance showing moderate economic growth with a reduction in the rate forecast to 1.7%. The emerging Asian economies, in contrast, continue to show above-average growth of 8.8%. China will lead growth rates at 10.0%, followed by India with an estimated growth rate of 8.4% in 2008. However, growth in these countries may be curbed due to a decline in demand in Europe or America caused by the uncertainty in the financial markets.

Expected development of gross domestic product

Variation in %	2007	2008
World	**5.2**	**4.8**
Eurozone	2.5	2.1
Germany	2.4	2.0
UK	3.1	2.3
France	1.9	2.0
US	1.9	1.9
Japan	2.0	1.7
China	11.5	10.0
India	8.9	8.4
Emerging eastern Asian economies	9.8	8.8

Source: International Monetary Fund, World Economic Outlook, October 2007

Market trend in the divisions

Tourism

As in previous years, the World Tourism Organization (UNWTO, World Tourism Barometer, January 2008) expects the international travel market to gather momentum and record growth of around 6% in 2007. Due to strong economic uncertainty and the slowdown in economic parameters, the growth rate is expected to be between 3% and 4% in 2008. These framework parameters include the US dollar exchange rate and the high crude oil prices. At 1% to 3%, North and South America are expected to show the lowest growth rate. This is due to the economic situation in North America, the source market accounting for around two thirds of tours to this region. On the other hand, the travel market in the eurozone is expected to generate growth of 3% to 4%, matching worldwide average levels and benefiting in particular from sound exchange rates for the euro. The strongest growth rates of 6% to 10% are expected for the Asia and Pacific regions, the Middle East and Africa.

Shipping

According to a forecast by Global Insight, transport volumes in container shipping will grow by 7.3% to around 120 million standard containers (TEU). This will partly be attributable to the steady growth in world trade, estimated as 6.7% in 2008 by the International Monetary Fund (IMF). This positive trend, driven above all by the Asian economies, contrasts with stronger cost pressure. For 2008, bunker and fuel costs are currently expected to continue to rise.

Development of results of operations

Tourism

Business trend

In the 2007 financial year, TUI's tourism division again recorded an increase in customer volumes. Adjusted for the first-time prorated consolidation of First Choice, the increase was primarily generated in the German market and related to sales of tours by tour operators but also travel components, in particular the seat-only business. For the next few years, the main growth stimuli for the tour operator business are expected to be recorded in the long-haul segment. Package beach holidays in destinations around the Mediterranean, however, will stabilize at a high level. While holidaymakers expect increasingly individualized product portfolios to meet their needs and demand for special products and niche products continues to rise, standard products will continue to experience strong price pressure. TUI will therefore place its strategic focus in 2008 on a flexible capacity

policy and the design of unique holiday experiences and differentiated products for customers. TUI aims to achieve this goal by means of high product quality and the creation of individual holidays. To this end, exclusive hotel offerings will be expanded in all markets. From TUI's perspective, these are key criteria for success that will significantly increase the value of the Mainstream business and create moderate growth. The Specialist Sector, which includes premium and modular products, will also be further expanded.

Turnover

Turnover is expected to grow from around € 16 billion in the 2007 financial year to € 19 billion in the 2008 financial year. This increase will primarily result from the first-time full financial year consolidation of the First Choice activities, while the primary turnover growth will be moderate, in line with the planned capacity and quality strategy.

Earnings

For 2008, earnings are expected to rise, both in TUI Travel PLC and TUI Hotels & Resorts. The main drivers behind the earnings growth in TUI Travel PLC are the expected synergies from the merger between TUI and First Choice, margin improvements resulting from the capacity and product measures initiated in the Mainstream Sector and further growth in the Specialist Holidays Sector, Activity Holidays Sector and Online Destination Services. TUI Hotels & Resorts is planning to achieve a further increase in the number of bednights, driven by the expected positive development in the long-haul segment and the eastern Mediterranean. Moreover, third-party business is to be expanded substantially. Average revenues per bed are to rise slightly.

Based on the earnings target for TUI's former tourism entities and taking account of the expected future profit contributions by First Choice and first synergy prosperties, a margin risk resulting from an intensification of competition and an increase in fuel prices, TUI expects a significant increase of earnings for the tourism division.

Shipping

Business trend

Overall, the container transport business is expected to continue to recover. The sector is expected to achieve growth of around 7% and thus again outperform world trade. This will primarily be attributable to the positive development of the Chinese export market, the crucial factor for Far East and Trans-Pacific transportation. In addition, freight rates are expected to rise in all trade lanes. Following the completion of the integration of CP Ships, Hapag-Lloyd will outperform the market and record an above-average increase in transport volumes. The risks emerging in this context are related to the effect of the sub-prime crisis on the development of world trade, which cannot yet be fully assessed. On the other hand, the development of bunker costs for ships also will be key. Bunker costs were characterised by steady increases in recent years.

Turnover

Against the background of the expected development of transport volumes and the increase in average freight rates, the shipping division is expected to post an increase in turnover to around € 7 billion in 2008, up from € 6.2 billion in the 2007 financial year – depending on the development of the US dollar exchange rate against the Euro.

Earnings

In leveraging the full synergy potential of € 220 million from the integration of CP Ships in 2008 TUI expects significantly advanced earnings even in face of a moderate volume growth and a slight recovery of freight rates levels in 2008.

TUI Group

Based on the expected increase in turnover in tourism and shipping consolidated turnover is expected to rise. It will increase from nearly € 22 billion in 2006 to around € 26 billion.

TUI AG

Against the background of the forecast development of business and earnings of the TUI Group, TUI AG, the Group's holding company, is expected to receive sufficient inflows of earnings from its investments to be able to pay a dividend again for 2008.

Development of the financial situation

Financing

The Group's net debt totalled € 3.9 billion at the balance sheet date. Based on the expected increase in the Group's profitability and the planned investment programmes in tourism and shipping, net debt is expected to decline in 2008.

Investments

Due to the investment decisions already taken and planned projects, TUI expects a financial requirement of around € 1 billion for the 2008 financial year. These funds will largely be used as investments in property, plant and equipment. Around 60% of the planned total investments concern tourism. Around two thirds of the investments in tourism will be used for TUI Travel PLC, with the remaining third planned to be invested in the further expansion of the hotel sector. In shipping, the expansion of the container ship fleet will require the largest portion of the financial requirement. Shipping will account for around 40% of the Group's planned total investments. Other projects or acquisitions will only be considered and implemented if attractive opportunities arise or if this is required in the light of the business development.

Expected overall development

Overall, the Group's profitability is expected to rise in the 2008 financial year due to the realisation of the planned synergies in the wake of the merger of the TUI Group's tourism entities and First Choice as well as the expected recovery in freight rates and a further improvement in the productivity level in shipping. The development of earnings can be influenced in a negative way by the potential effect of the current sub-prime crisis on the operative business.

Corporate Governance

global
transparent
sustainable
dedicated

110 Corporate Governance Report

114 Supervisory Board

117 Executive Board

118 Report of the Supervisory Board

123 TUI Share

128 TUI Group in Figures

129 Sustainable Development

Corporate Governance Report Recommendations of the German Corporate Governance Code fully implemented.

The actions of TUI AG's management and control bodies are determined by the principles of good and responsible corporate governance. In this chapter, the Executive Board – also acting on behalf of the Supervisory Board – provides its report on corporate governance in the Company pursuant to subsection 3.10 of the German Corporate Governance Code.

TUI has consistently based its corporate governance on the recommendations and suggestions of the German Corporate Governance Code. The Executive Board and the Supervisory Board discussed corporate governance issues several times in 2007 and jointly submitted an updated declaration of compliance for 2007 on 8 November 2007, pursuant to section 161 of the German Stock Corporation Act. The declaration was made permanently available to the general public on TUI AG's website.

Declaration of compliance

The declaration of compliance reads as follows:

The current and all previous declarations of compliance have been made permanently available on the internet at www.tui-group.com

'In accordance with section 161 of the German Stock Corporate Act, the Executive Board and Supervisory Board of TUI AG hereby declare:

The recommendations of the Government Commission on the German Corporate Governance Code in the version of 12 June 2006, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 24 July 2006, have been and are fully complied with.

TUI AG will additionally fully comply with the recommendations in the currently valid version of 14 June 2007, as published by the Federal Ministry of Justice on 20 July 2007.

In addition, TUI AG also complies with the suggestions set out in the Code, the only exception being the introduction of varying periods of office for the shareholders' representatives in the Supervisory Board, for which no plan exists at present.'

We consider maintenance of uniform periods of office to be useful in order to guarantee the continuity of the work of the Supervisory Board.

Cooperation between the Executive Board and the Supervisory Board

TUI AG is a company under German law, which also forms the basis of the German Corporate Governance Code. One of the fundamental principles of German stock corporation law is the dual management system involving two bodies, the Executive Board and the Supervisory Board, each of which are endowed with independent competences. TUI AG's Executive

Board and Supervisory Board cooperate closely and in a spirit of trust in managing and controlling the Company.

TUI AG's Executive Board currently comprises six members. They manage the Company's business operations and are jointly accountable for the management of the Company. The allocation of duties and responsibilities to the individual Board members is presented separately in this chapter.

The Supervisory Board advises and supervises the Executive Board in the management of the Company. It is involved in strategic and planning decisions and all decisions of fundamental importance to the Company. In accordance with the terms of reference, decisions taken by the Executive Board on major transactions such as the annual budget, major acquisitions or divestments require the approval of the Supervisory Board. The chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and externally represents the concerns of the body.

The Executive Board provides the Supervisory Board with comprehensive up-to-date information at regular meetings and in writing about the budget, the development of business, the situation of the Group, including risk management, and compliance. An extraordinary Supervisory Board meeting may be convened if required when events of particular relevance occur. The Supervisory Board has adopted terms of reference governing its work. In the run-up to the Supervisory Board meetings, the representatives of shareholders and employees meet separately, when necessary.

In accordance with the German Co-determination Act and the Articles of Association, TUI AG's Supervisory Board comprises twenty members, with ten representatives elected by the shareholders and ten by the employees for an identical period of office. There is no plan at present to introduce different periods of office for the shareholders' representatives. In accordance with the new recommendations of the German Corporate Governance Code, the shareholders' representatives were elected individually in the last elections to the Supervisory Board at the AGM on 10 May 2006. The Supervisory Board does not comprise any former Executive Board members. The body comprises a sufficient number of independent members not maintaining any personal or business relationship with the Company or its Executive Board. The Supervisory Board has been elected for a period of five years that will expire at the end of the 2011 Annual General Meeting.

The Supervisory Board has established three committees from among its members: the Presiding Committee, the Audit Committee and the Nomination Committee, which prepare and complement its work. The Presiding and Audit Committee have six members each, with an equal number of shareholder and employee representatives. Based on his practical professional experience, the chairman of the Audit Committee has special knowledge and experience in the application of accounting principles and internal control methods. The newly formed Nomination Committee exclusively comprises shareholder representatives in accordance with the Corporate Governance Code. Its task is to suggest suitable candidates to the Super-

visory Board for its suggestions to the Annual General Meeting. There is no plan at present to establish any further committees.

The Executive and Supervisory Board members are obliged to act in TUI AG's best interests. In the completed financial year there were no conflicts of interest requiring immediate disclosure to the Supervisory Board. None of the Executive Board members of TUI AG sat on more than five Supervisory Boards of listed non-Group companies.

For the Remuneration Report see the separate chapter in the Management Report

TUI AG complies with the recommendations of the German Corporate Governance Code to provide details of the remuneration of each individual member of the Executive Board and Supervisory Board. The principles of the remuneration systems and remuneration amounts are outlined in the 'Remuneration Report' which is part of the management report.

Shareholders and Annual General Meeting

TUI AG shareholders exercise their co-determination and control rights at the Annual General Meeting. The AGM takes decisions on all statutory matters that are binding on all shareholders and the Company. For voting on resolutions, each share confers one vote.

All shareholders registering in due time are entitled to participate in the AGM. Shareholders who are not able to attend the AGM in person are entitled to have their voting rights exercised by a proxy of their own choosing or by a representative provided by TUI AG and acting on their behalf in accordance with their instructions. Since the 2006 Annual General Meeting, shareholders have also had the opportunity of voting per internet in the run-up to the AGM or authorising the representative provided by the Company on the web.

The invitation to the AGM and the reports and documents required for voting are published in accordance with the provisions of the German Stock Corporation Act and provided in German and English on TUI AG's website. During the AGM the presentations given by the chairman of the Supervisory Board and the Executive Board are transmitted live by the internet.

Risk management

Good corporate governance entails the responsible handling of commercial risks. The Executive Board of TUI AG and the management of the TUI Group use comprehensive general and company-specific reporting and monitoring systems to identify, assess and manage these risks. These systems are continually developed, adjusted to match changes in overall conditions and reviewed by the auditors. More detailed information about 'Risk Management' in the TUI Group is presented in the relevant chapter of the management report.

Transparency

TUI provides immediate, regular and up-to-date information about the Group's economic situation and new developments to capital market participants and the interested public. The annual report and the interim

reports are published within the applicable time-frames. The Company publishes press releases and ad hoc releases, if required, on topical events and any new developments. All information is published simultaneously in German and English and is available in print as well as by appropriate electronic media such as e-mail or the internet. Moreover, the company website at www.tui-group.com provides comprehensive information on the TUI Group and the TUI share.

The scheduled dates for the main regular events and publications – such as AGM, annual report and interim reports – are set out in a financial calendar. They are published well in advance and made permanently accessible to the public on TUI AG's website.

Directors' dealings

The Company was informed of notifiable purchase and sales transactions of shares in TUI AG or related financial instruments by two Supervisory Board members in 2007.

At the end of the 2007 financial year, the number of shares in TUI AG directly or indirectly held by members of the Executive Board and Supervisory Board exceeded 1%, the limit fixed for individually notifiable share ownership, for two Supervisory Board members. Executive Board members held a total of 2,715 shares, Supervisory Board members held 18,787,142 shares. Of these shares, Ms Carmen Riu Güell (indirectly) held 12,768,000 shares, Mr Abel Matutes Juan (indirectly) held 6,006,000 shares and the remaining Supervisory Board members held 13,142 shares.

Accounting and auditing

TUI AG prepares its consolidated financial statements in accordance with the provisions of the International Accounting Standards Board (IASB) and regularly publishes interim reports, also in accordance with the relevant provisions of the IASB. The annual financial statements of TUI AG are prepared in accordance with the German Commercial Code (HGB).

The consolidated financial statements and the financial statements of TUI AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, the auditors elected by the 2007 AGM. The audit was based on German auditing rules, taking account of the generally accepted auditing standards issued by the German Auditors' Institute as well as the International Standards on Auditing. It also covered risk management and compliance with reporting requirements concerning corporate governance pursuant to section 161 of the German Stock Corporation Act. In addition, a contractual agreement was concluded with the auditors to the effect that the auditors will immediately inform the Supervisory Board of any grounds for disqualification or partiality occurring during the audit as well as of all findings or events of importance arising during the performance of the audit. In the course of the audit for the 2007 financial year there was no reason to provide such information.

Supervisory Board

Members of the Supervisory Board

Dr. Jürgen Krumnow
Chairman
ex. Member of the Executive Board
of Deutsche Bank AG
Frankfurt/Main

Jan Kahmann
Deputy Chairman
ex. Member of the Federal Executive Board
of ver.di – Vereinte Dienstleistungs-
gewerkschaft
Berlin

Andreas Barczewski
Aircraft captain
Hanover

Jean-Claude Baumgarten
President of the
World Travel & Tourism Council
London

Jella Susanne Benner-Heinacher
Solicitor
Managing Director of Deutsche
Schutzvereinigung für Wertpapierbesitz e.V.
Düsseldorf

Sepp Dieter Heckmann
Chairman of the Executive Board
of Deutsche Messe AG
Hanover

Frank Jakobi
Travel agent
Hamburg
(since 15 August 2007)

Uwe Klein
Clerk
Hamburg

Christian Kuhn
Travel agent
Hanover
(until 31 December 2007)

Dr. Dietmar Kuhnt
ex. Chairman of the Executive Board
of RWE AG
Essen

Roberto López Abad
Chief Executive of Caja de Ahorros
del Mediterráneo
Alicante

Dieter Lübkemann
Shipping agent
Bremen

Dr. h.c. Abel Matutes Juan
Chairman of Fiesta Hotels & Resorts
Ibiza

Petra Oechtering
Travel agent
Cologne
(until 15 August 2007)

Carmen Riu Güell
Entrepreneur
Playa de Palma

Hans-Dieter Rüster
Aircraft engineer
Langenhagen
(since 17 January 2008)

Dr. Manfred Schneider
Chairman of the Supervisory Board
of Bayer AG
Leverkusen

Roland Schneider
Business Economist
Barsinghausen

Ilona Schulz-Müller
Representative for equality
in the Federal Executive Board
of ver.di – Vereinte Dienstleistungs-
gewerkschaft
Berlin

Olaf Seifert
Head of the Group Controlling Department
of TUI AG
Hanover

Henry Sieb
Federal Group Leader Travel of ver.di
– Vereinte Dienstleistungsgewerkschaft
Berlin

Dr. Franz Vranitzky
Chancellor (retrd.) of the Republic
of Austria
Vienna

as of 29 February 2008

Committees of the Supervisory Board

Members of the Presiding Committee

Dr. Jürgen Krumnow
ex. Member of the Executive Board
of Deutsche Bank AG
Frankfurt/Main

Jan Kahmann
ex. Member of the Federal Executive Board
of ver.di – Vereinte Dienstleistungs-
gewerkschaft
Berlin

Uwe Klein
Clerk
Hamburg

Petra Oechtering
Travel agent
Cologne
(until 15 August 2007)

Carmen Riu Güell
Entrepreneur
Playa de Palma

Roland Schneider
Business Economist
Barsinghausen
(since 1 September 2007)

Dr. Franz Vranitzky
Chancellor (retrd.) of the Republic
of Austria
Vienna

Members of the Audit Committee

Dr. Dietmar Kuhnt
Chairman
ex. Chairman of the Executive Board
of RWE AG
Essen

Dr. Jürgen Krumnow
ex. Member of the Executive Board
of Deutsche Bank AG
Frankfurt/Main

Uwe Klein
Clerk
Hamburg

Dr. Manfred Schneider
Chairman of the Supervisory Board
of Bayer AG
Leverkusen

Ilona Schulz-Müller
Representative for equality
in the Federal Executive Board
of ver.di – Vereinte Dienstleistungs-
gewerkschaft
Berlin

Olaf Seifert
Head of the Group Controlling Department
of TUI AG
Hanover

Member of the Nomination Committee

Dr. Jürgen Krumnow
ex. Member of the Executive Board
of Deutsche Bank AG
Frankfurt/Main

Carmen Riu Güell
Entrepreneur
Playa de Palma

Dr. Franz Vranitzky
Chancellor (retrd.) of the Republic
of Austria
Vienna

Supervisory Board

Other Board memberships of the Supervisory Board*)

Dr. Jürgen Krumnow
(Chairman)
a) Deutsche Bahn AG
Hapag-Lloyd AG
Lenze Holding AG[2]
b) Peek & Cloppenburg KG

Jan Kahmann
(Deputy Chairman)
a) Eurogate Beteiligungs-GmbH[2]

Andreas Barczewski
–

Jean-Claude Baumgarten
–

Jella Susanne Benner-Heinacher
a) A.S. Création AG
K+S AG

Sepp Dieter Heckmann
a) Arena Hannover GmbH

Frank Jakobi
–

Uwe Klein
a) Hapag-Lloyd AG

Christian Kuhn
a) TUI Deutschland GmbH

Dr. Dietmar Kuhnt
a) Allianz Versicherungs-AG
BDO Deutsche Warentreuhand AG
Dresdner Bank AG
GEA Group AG
Hapag-Lloyd AG
Hochtief AG
b) COMSTAR-United TeleSystems

Roberto López Abad
b) Banco Inversis Net, S.A.
CAM AEGON Holding Financiero S.L.[1]
CAMGE Financiera, E.F.C. S.A., Unipersonal[1]
CAMGE Holdco, S.L.[1]
EBN Banco De Negocios, S.A.
Gestión Tributaria Territorial, S.A.[1]
Lico Corporación, S.A.[2]
Lico Leasing S.A. E.F.C.[1]
Mediterráneo Vida, S.A. De Seguros Y Reaseguros, Sociedad Unipersonal[1]

Dieter Lübkemann
a) Hapag-Lloyd AG

Dr. h.c. Abel Matutes Juan
–

Petra Oechtering
–

Carmen Riu Güell
b) RIU Hotels, S.A.
RIUSA II, S.A.

Hans-Dieter Rüster
–

Dr. Manfred Schneider
a) Bayer AG[1]
Daimler AG
Linde AG[1]
Metro AG
RWE AG

Roland Schneider
–

Ilona Schulz-Müller
–

Olaf Seifert
a) TUI España Turismo S.A.
TUI Hellas Travel and Tourism A.E.

Henry Sieb
a) TUI Deutschland GmbH[2]
TUI Leisure Travel GmbH

Dr. Franz Vranitzky
b) Magna International Corp.

*) Information refers to 31 December 2007 or date of resignation from the Supervisory Board of TUI AG in 2007

1) Chairman
2) Deputy Chairman

a) Membership in Supervisory Boards required by law
b) Membership in comparable Boards of domestic and foreign companies

Executive Board

Annex to the Notes

Executive Board of TUI AG

Dr. Michael Frenzel
Chairman

Horst Baier
Controlling
(since 9 November 2007)

Michael Behrendt
Shipping

Dr. Peter Engelen
Human Resources and Legal Affairs

Rainer Feuerhake
Finance

Peter Long
Tourism
(since 3 September 2007)

Christoph R. Mueller
Controlling
(until 3 September 2007)

Peter Rothwell
Tourism
(until 8 November 2007)

Other board memberships of the Executive Board*)

Dr. Michael Frenzel
(Chairman)
a) AWD Holding AG
AXA Konzern AG
Continental AG
E.ON Energie AG
Hapag-Lloyd AG[1]
Hapag-Lloyd Fluggesellschaft mbH[1]
TUI Deutschland GmbH[1]
Volkswagen AG
b) Norddeutsche Landesbank
Preussag North America, Inc.[1]
TUI China Travel Co. Ltd.
TUI Travel PLC[1]

Horst Baier
a) Hapag-Lloyd AG
TUI Deutschland GmbH
TUI Leisure Travel GmbH
b) Grupotel Dos S.A.
Magic Life Assets AG
RIUSA II S.A.[1]
TUI Holding Spain S.L.

Michael Behrendt
a) Barmenia Allgemeine Versicherungs-AG
Barmenia Krankenversicherung a.G.[2]
Barmenia Lebensversicherung a.G.[2]
ESSO Deutschland GmbH
ExxonMobil Central Europe Holding GmbH
Hamburgische Staatsoper GmbH
MAN AG
b) CP Ships Ltd.[1]

Dr. Peter Engelen
a) Hapag-Lloyd Fluggesellschaft mbH
TUI Deutschland GmbH
TUI Leisure Travel GmbH
b) TUI China Travel Co. Ltd.

Rainer Feuerhake
a) Hapag-Lloyd AG
Hapag-Lloyd Fluggesellschaft mbH
TUI Deutschland GmbH
b) Amalgamated Metal Corporation PLC
Preussag North America, Inc.
TUI España Turismo S.A.
TUI InfoTec GmbH
TUI Travel PLC

Peter Long
a) –
b) Debenhams PLC
First Choice Airways Ltd.[1]
First Choice Holidays&Flights Ltd.
First Choice Holidays PLC
Rentokil Initial PLC
StudentCity.com, Inc.
Sunshine Cruises Ltd.

Christoph R. Mueller
a) Hapag-Lloyd AG
Hapag-Lloyd Fluggesellschaft mbH
TUI Deutschland GmbH
b) Jetair N.V.
Sonata Software Ltd.
TUI Belgium N.V.

Peter Rothwell
a) TUI Deutschland GmbH
b) TUI Belgium N.V.
TUI España Turismo S.A.

*) Information refers to 31 December 2007 or date of resignation from the Executive Board of TUI AG in 2007

[1] Chairman
[2] Deputy Chairman

a) Membership in Supervisory Boards required by law
b) Membership in comparable Boards of domestic and foreign companies

Corporate Governance

Forward-looking Statements

The annual report, in particular the report on expected developments included in the management report, includes various forecasts and expectations as well as statements relating to the future development of the TUI Group and TUI AG. These statements are based on assumptions and estimates and may entail known and unknown risks and uncertainties. Actual development and results as well as the financial and asset situation may therefore differ substantially from the expectations and assumptions made. This may be due to market fluctuations, the development of world market prices for commodities, of financial markets and exchange rates, amendments to national and international legislation and provision or fundamental changes in the economic and political environment. TUI does not intend to and does not undertake an obligation to update or revise any forward-looking statements to adapt them to events or developments after the publication of this annual report.

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The German version of this report is legally binding. The Company cannot be held responsible for any misunderstandings or misinterpretations arising from this translation. Both versions are available on the web: www.tui-group.com.

Report of the Supervisory Board

In the following, the Supervisory Board reports on its activities in the 2007 financial year, in particular the plenary discussions, the work done by the committees, compliance with the Corporate Governance Code, the audit of the financial statements of TUI AG and the Group as well as changes in the membership of the boards of the Company.

Cooperation between the Supervisory Board and the Executive Board
In the 2007 financial year, the Supervisory Board performed its duties in accordance with the law and the Articles of Association. It monitored the work of the Executive Board and regularly advised the Board on the management of the Company.

In written and verbal reports, the Executive Board provided regular, timely and comprehensive information to the Supervisory Board, encompassing all relevant information on the planning, the development of business and the position of the Group, including the risk situation, risk management and compliance. Deviations in the development of business from the approved plans were presented, explained and discussed. The Executive Board discussed the strategic focus of the Group and all key transactions of relevance to the Company – in particular the further development of the Group – with the Supervisory Board. The Supervisory Board was involved in all decisions of fundamental relevance to the Company.

Transactions requiring the approval of the Supervisory Board and decisions of fundamental importance were discussed in depth with the Executive Board at Supervisory Board committee meetings prior to a decision being taken. The Supervisory Board was fully informed about specific and particularly urgent plans and projects arising between the regular meetings and, where necessary, submitted its approval in writing. The chairman of the Supervisory Board was regularly informed about current business developments and key transactions in the Company in between Supervisory Board meetings.

Supervisory Board and committees
The Supervisory Board has set up three committees to support its work: the Presiding Committee, the Audit Committee and the Nomination Committee. The Presiding Committee prepares the resolutions and issues to be dealt with by the Supervisory Board. It also fixes the terms and conditions, including the remuneration of the contracts of employment for Executive Board members.

In the 2007 financial year, four regular Supervisory Board meetings were held. The Presiding Committee met four times; the Audit Committee also held four meetings. The Nomination Committee did not meet.

Prior to regular Supervisory Board meetings, the shareholder representatives in the Supervisory Board met three times, and the employees' representatives eight times in separate meetings. No Supervisory Board member attended fewer than half of the Supervisory Board meetings in the completed financial year.

Work of the Presiding Committee

At the meeting on 17 March 2007, convened to adopt the annual financial statements, deliberations mainly focused on the preparation of the items on the agenda for the forthcoming Supervisory Board meeting. The meetings of 11 July 2007 and 9 October 2007 mainly dealt with issues relating to the Executive Board. At the latter meeting, discussions also related to the updated declaration on the German Corporate Governance Code and corporate governance issues concerning the investment in TUI Travel PLC. At the meeting of 8 November 2007, issues relating to the Executive Board were discussed and the forthcoming Supervisory Board meeting was prepared.

Work of the Audit Committee

At its meeting on 17 March 2007, the Audit Committee focused its deliberations on the annual financial statements of TUI AG and the consolidated financial statements for 2006. The committee also discussed its recommendation to the Supervisory Board on the election of the auditors for the 2007 financial year.

At its meeting on 10 May 2007, the Audit Committee dealt with the interim financial statements as per 31 March 2007, the report on the Group's risk situation, policies for the employees of TUI AG and the status of the integration of CP Ships.

One of the key items discussed at the meeting of 8 August 2007 were the interim financial statements for the first half of 2007. In addition, the Audit Committee discussed the main areas to be audited in the annual audit for the 2007 financial year and the establishment of TUI Travel PLC. Moreover, the Audit Committee resolved to invite new tenders for the audit of the financial statements of TUI AG and the Group as per 31 December 2008.

The meeting of 7 November 2007 mainly focused on the interim financial statements as per 30 September 2007. The agenda also covered other issues including the internal control system, in particular Group Internal Auditing activities in the 2007 financial year, the audit plan for 2008 and the report on the organisation of compliance. Discussions also related to the effects of the corporate tax reform on the Group.

Auditor representatives attended all four meetings of the Audit Committee and presented reports on their activities.

Deliberations in the Supervisory Board

The Executive Board's reports and the discussions at Supervisory Board meetings regularly focused on the development of turnover, earnings and employment of the Group and the individual divisions as well as the financial situation and structural development of the Group.

The central issue in the meeting on 18 March 2007, was the debate concerning the acquisition of the First Choice Group and its merger with the tourism entities of the TUI Group. Other major subjects were the reports and deliberations on the annual financial statements as per 31 December 2006, the comparison between budgeted and actual figures for 2006 and the HR and social situation in 2006. The discussions on the annual financial statements were also attended by representatives of the auditors who were available to answer questions. Other items on the agenda for that meeting were the resolution concerning the issue of employee shares and the extension of the authorisation to acquire own shares as well as various amendments to the Articles of Association. The Supervisory Board also dealt with shareholding issues.

The meeting of 16 May 2007 mainly served to prepare for the forthcoming Annual General Meeting and the issuance of a convertible bond.

Deliberations at the meeting of 11 July 2007 focused on matters relating to the Executive Board. In addition, the Executive Board reported on the status of the merger between the tourism division and First Choice Holidays PLC to form TUI Travel PLC. The Supervisory Board also dealt with shareholding issues.

At the meeting of 8 November 2007, deliberations focused on corporate governance issues. In this context, the Supervisory Board adopted the declaration of compliance with the German Corporate Governance Code, resolved necessary amendments to the terms of reference of the Supervisory Board and discussed the efficiency review report. As part of its regular reporting activities, the Executive Board informed the Supervisory Board about shareholding and financing issues. The Supervisory Board also dealt with the future business development of the new TUI Travel PLC in 2008.

Corporate Governance

At the meeting of 8 November 2007, the Executive Board and Supervisory Board discussed an update of the declaration of compliance with the German Corporate Governance Code and issued the joint declaration of compliance pursuant to section 161 of the German Stock Corporation Act. It was made permanently accessible to the public on TUI AG's website. Accordingly, TUI AG complies with all recommendations of the German Corporate Governance Code in its currently applicable version dated 14 June 2007. In accordance with section 3.10 of the Code and also on behalf of the Supervisory Board, the Executive Board reports about corporate governance in a separate section (corporate governance report) of this chapter.

At their meetings, both the Audit Committee and the Supervisory Board dealt with corporate governance issues within the Company, also in particular several times with regard to the investment in TUI Travel PLC. They also

examined the efficiency of their actions. This review was carried out on the basis of a questionnaire. The results of the efficiency review were discussed at the Supervisory Board meeting of 8 November 2007.

Audit of the annual financial statements of TUI AG and the Group

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, were appointed as the auditors by the Annual General Meeting held on 16 May 2007 and were commissioned by the Supervisory Board. The audit covered the annual financial statements of TUI AG as at 31 December 2007, submitted by the Executive Board and prepared in accordance with the provisions of the German Commercial Code (HGB), as well as the joint management report of TUI AG and the Group and the consolidated financial statements for the 2007 financial year, prepared in accordance with the provisions of the International Accounting Standards Board (IASB) and complemented by the commercial law provisions additionally required pursuant to section 315a subsection 1. The auditors issued their unqualified audit certificate for the annual financial statements of TUI AG and the consolidated financial statements.

The annual financial statements, the management report and the auditors' reports were submitted to all members of the Supervisory Board. They were discussed at the Audit Committee meeting of 14 March 2008 and the Supervisory Board meeting on 17 March 2008, at which representatives of the auditors were present and were available to answer questions. On the basis of its own audit of the annual financial statements of TUI AG and the Group, the joint management report as per 31 December 2007 and the results of the audit, the Supervisory Board approved the annual financial statements prepared by TUI AG, which were thereby adopted, the consolidated financial statements and the Group management report. The Supervisory Board also examined and approved the proposal for the appropriation of the profits for the 2007 financial year submitted by the Executive Board.

Supervisory Board and committee memberships

With effect from 15 August 2007, Ms Petra Oechtering resigned from her office on the Presiding Committee and Supervisory Board of TUI AG. As from that date she has been replaced by Mr Frank Jakobi, elected in person as her substitute on the Supervisory Board. With effect from 1 September 2007, the Supervisory Board elected Mr Roland Schneider as a member of the Presiding Committee. Mr Christian Kuhn resigned from the Supervisory Board of TUI AG as per 31 December 2007. By resolution of the district court of Hanover of 17 January 2008, Mr Hans-Dieter Rüster was appointed to the Supervisory Board. The Supervisory Board thanks the retired members for their commitment over many years.

Composition of the Executive Board and the Executive Committee

With effect from 3 September 2007, the Supervisory Board appointed Mr Peter Long (Tourism) as ordinary member of the Executive Board. In addition to his function as a Board member for TUI AG, Mr Peter Long is the Chief Executive of TUI Travel PLC.

Also effective 3 September 2007, Mr Christoph R. Mueller resigned from the Executive Board of TUI AG. He changed to the Board of TUI Travel PLC as Aviation Director. The Supervisory Board thanks Mr Mueller for his work as a Board member of TUI AG.

At its meeting on 8 November 2007, the Supervisory Board extended the contracts of CEO Dr Michael Frenzel (until 31 March 2012), CFO Rainer Feuerhake (until 31 March 2011) and HR director Dr Peter Engelen (until 31 August 2013).

At its meeting of 8 November 2007, the Supervisory Board also appointed Mr Horst Baier as Board member of TUI AG with effect from 9 November 2007. He is in charge of Controlling.

On 8 November 2007, Mr Peter Rothwell resigned from the Executive Board with immediate effect. He had been in charge of Tourism with Mr Peter Long. The Supervisory Board thanks Mr Rothwell for his work as a Board member of TUI AG.

The Executive Committee was dissolved in the wake of the reorganisation of the Group structure. Messrs Karl J. Pojer (TUI Hotels & Resorts) and Adolf Adrion (Shipping) will continue to be divisional directors and regularly participate in the Board meetings of the TUI AG in that function.

The Supervisory Board
Hanover, 17 March 2008

Dr. Jürgen Krumnow
Chairman

TUI Share 2007 Strong share price fluctuations. TUI share outperforming the DAX.

2007 was a year characterised by strong fluctuations in the stock markets. After an initially good start, a crash on the Shanghai Stock Exchange triggered a worldwide slump in share indices at the end of February. Subsequently, however, prices quickly rose back to record levels, only to be substantially impacted again in July by the repercussions of the sub-prime crisis in the US. In the second half of the year, the market sentiment improved although prices continued to be significantly affected by the aftermath of the sub-prime crisis.

This environment also characterised the development of the German Share Index (DAX), which rose by more than 5% in the first two months of the year from an initial level of 6,597 points. Following an annual low of 6,448 points in March, the DAX then reached a historical high of 8,106 points in July 2007. The subsequent decline, temporarily amounting to more than 800 points, was offset in second half of the year by positive corporate news. However the index continued to be impacted by the sub-prime crisis and an increase in inflation. The DAX closed the year at 8,067 points, up 22% on its level at the beginning of the year.

Information on the TUI share

31 December 2007	
WKN	TUAG00
ISIN	DE000TUAG000
Reuters/Bloomberg	TUIGn.DE/TUI1.GR
Stock category	Registered ordinary shares
Capital stock	€ 642,299,113.43
Number of shares	251,245,575 units
Market capitalisation	€ 4,806,327,850

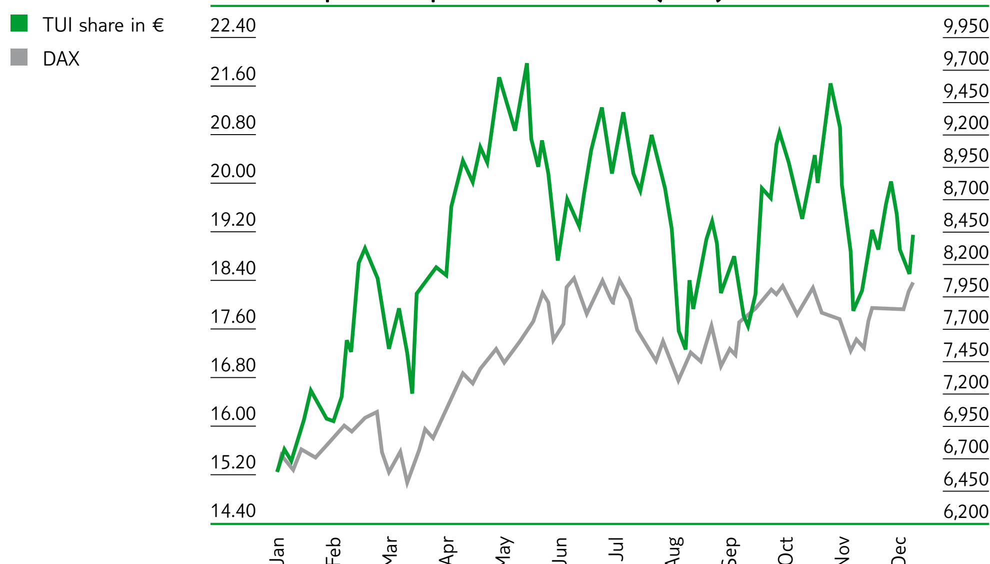
Development of TUI share price in 2007

Share price fluctuation

From its annual low of € 15.19 on 2 January 2007, the TUI share price rose at the beginning of 2007. In May 2007, the TUI share reached its annual high of € 21.95. During this, the share price benefited from sound worldwide economic development which increasingly boosted world trade and thus prospects for the container shipping sector. In the middle of the year, the share price was determined by differing developments. On the one hand, the share price benefited from positive news in the tourism sector, whilst on the other hand it declined when the Group announced its weaker half-year performance figures in August. Following presentation of the interim report as at the third quarter of 2007 featuring performance figures that exceeded expectations and a positive outlook, the share price picked up again and almost reaching its previous high. The subsequent drop was caused by a slight slow-down in economic activity, high

crude oil prices and the ongoing repercussions of the sub-prime crisis in the US. At the end of the year, the TUI share was nevertheless quoted at € 19.13, up by 26% on the opening price. It thus outperformed the DAX throughout most of the year.

TUI share price compared with the DAX (2007)



Long-term development of the TUI share price

€	2003	2004	2005	2006	2007
High	16.02	19.04	20.47	18.40	21.95
Low	7.22	12.05	16.10	14.51	15.19
Year-end share price	15.39	16.22	17.30	15.14	19.13

Quotations, indices and trading

The TUI share is officially traded on all German trading floor systems and in the Xetra electronic trading system. No other company with similar operations in tourism and shipping is listed in the German stock market. Several European competitors in the tourism sector such as Thomas Cook, Club Méditerranée and Kuoni are traded on stock markets in the UK, France and Switzerland. In the shipping sector, listed international competitors include Maersk in Denmark, Evergreen Line in Taiwan, COSCO and CSCL in China and NYK Lines in Japan.

TUI Travel PLC share

Upon completion of the merger between TUI's tourism division and First Choice Holidays PLC, the First Choice Holidays PLC share was no longer listed. At the same time, the shares in TUI Travel PLC were admitted to the official list by the British admission authority on 3 September 2007 and admitted to trading of listed securities on the London Stock Exchange. On 24 December 2007, the share was admitted to the FTSE 100, the key share index on the London Stock Exchange.

Information on the TUI Travel PLC share

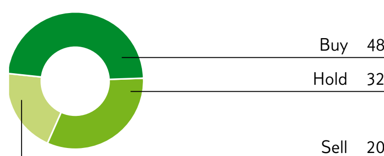
31 December 2007	
ISIN	GB00B1Z7RQ77
Reuters/Bloomberg	TT.L / TT/LN
Stock category	Registered ordinary shares
Number of shares	1,118 million
Market capitalisation	GBP 3,284,156,343

TUI share in the DAX30 and Prime Standard

The TUI share has been included in the DAX30 – the German Stock Index – since 1990. When the composition of the index was reviewed in December 2007, TUI shares ranked 26th in terms of trading volume and 37th in terms of market capitalisation. At that point in time, the TUI share had a weighting of 0.48% in the DAX. Since its launch in January 2003, TUI has been a member of the Prime Standard of Deutsche Börse and thus meets the high international transparency standards of this segment which are over and above legal requirements.

The TUI share is included in several industry indices in the German stock market and at European level. These include the European sub-indices Dow Jones Travel & Leisure Titans 30 and Dow Jones Euro Stoxx Travel & Leisure. Its year-end weightings in these subindices were 2.20% and 8.41%, respectively. Moreover, the TUI share is listed in the FTSE Eurotops 300 index. In terms of sustainability indices, the TUI share is listed in FTSE4Good, ASPI Eurozone (Advanced Sustainable Performance Indices), ESI (Ethibel Pioneer Index), the Dow Jones Sustainability Index World and ECPI Ethical Index €uro. In the German stock market, it is, inter alia, included in the calculation of the DAXplus Seasonal Strategy.

Analysts' recommendations (in %)



As of December 2007

Both for institutional and private investors, the recommendations by financial analysts form an important basis for their decisions. In 2007, almost 30 banks regularly published studies concerning TUI AG. At year-end, 48% of analysts recommended buying the TUI AG share, with 32% recommending 'hold' and 20% recommending 'sell'.

Trading in TUI shares rose again in 2007. On average, 4,083,813 no-par value shares were traded per day, an increase of around 14% year-on-year. For the first time, the total trading volume exceeded one billion no-par value shares. The number of option contracts on TUI shares traded on the European futures and options exchange EUREX rose by 40% to 9,405 contracts per day, i.e. a total of 2,379,552 contracts for the entire year.

Capital stock and number of shares

Employee shares

In December 2007, TUI AG's capital stock rose by a further € 577,044 due to the issuance of 225,720 employee shares. At the balance sheet date, it therefore totalled € 642,299,113, comprised of 251,245,575 no-par value shares, certificated by global certificates. The proportionate share capital attributable to each individual share was approx. € 2.56. Apart from subscribed capital, both authorised and conditional capital were available, as outlined in the notes on the consolidated financial statements.

Convertible bonds

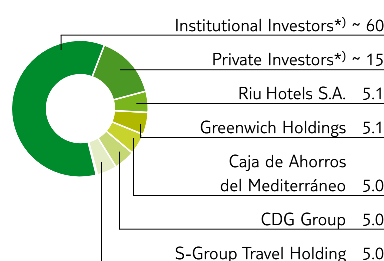
In 2007, no bonds were converted from the 2003/2008 and 2007/2012 convertible bonds. Investors therefore held conversion rights for a total of 19,385,784 TUI shares from the 2003 convertible bond and 25,072,254 TUI shares from the 2007 convertible bond at the balance sheet date.

Resolutions of the 2007 Annual General Meeting

The 2007 Annual General Meeting was held in Hanover on 16 May 2007. Approx. 2,200 shareholders and shareholder representatives, representing 47.2% of the voting capital, participated in the AGM. Besides the formal ratification of the acts of the Executive and Supervisory Boards and the adoption of a resolution on the appropriation of profits from the 2006 financial year, the agenda also included a share buyback programme in accordance with section 71 sub-section 1 no 8 of the German Stock Corporation Act as well as amendments to the Articles of Association. In the 2007 financial year, the authorisation to purchase our own shares was not used.

Shareholder structure

Shareholder structure (in %)



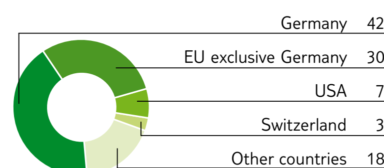
As of January 2008

*) Free float according to the definition by Deutsche Börse

At the beginning of 2008, around 75% of the TUI shares floated freely. Around 15% of these shares were held by private shareholders, around 25% by strategic investors and the majority, around 60%, by institutional investors. According to an analysis of the share register, these were mainly investors from Germany and other EU countries.

Current information on the shareholder structure and voting right notifications pursuant to section 26 of the German Securities Trading Act are available on the internet at: www.tui-group.com/de/ir/aktie/aktionaersstruktur.html

Geographical shareholder structure (in %)



As of December 2007

Dividend and yields

From TUI AG's annual net profit of € 66 million and the profit carried forward of € 54 million, profit available for distribution of € 33 million was available for distribution to the shareholders after transfers to the revenue reserves of € 88 million. Accordingly, a recommendation to pay a dividend of 25 euro cents per no-par value share will be submitted to the Annual General Meeting. With 251,245,575 dividend-bearing shares, the amount available for distribution totals € 62.8 million.

Development of dividends and earnings per share of TUI shares

€	2003	2004	2005	2006	2007
Earnings per share	1.54	2.96	2.28	- 3.66	0.61
Dividend	0.77	0.77	0.77	0.00	0.25

Stock yield

As before, the TUI share was an attractive investment for yield-oriented investors in 2007. Shareholders with longer-term exposure who in 1990, for instance, bought then Preussag shares for the equivalent of € 500, exercised their subscription rights and reinvested their dividends, held a TUI share portfolio worth € 1,190 at the balance sheet date. Their average return per annum was more than 5%.

Ratings

Rating

TUI's financial strength is subject to regular ratings by the international rating agencies Standard & Poor's and Moody's. At the end of 2007, their ratings were as follows:

Rating agency	Corporate rating	Outlook
Standard & Poor's	BB –	negative
Moody's	B1	negative

The respective ratings and additional detailed information on the bonds traded in the capital market are provided in the section 'Financial position'.

Refinancing

In May 2007, unsecured unsubordinated convertible bonds were issued. They were exclusively offered to institutional investors outside the US. Due to the exceptionally high level of demand, the originally planned initial volume of € 550 million was increased by € 82.5 million. In addition, the banks managing the placement of the bond exercised the greenshoe option worth € 61.5 million in order to cover over-allotments. The total issue volume of the convertible bond was thus € 694 million. The issuing proceeds were used for general corporate purposes and made available for a refinancing of a part of TUI's existing debt.

Investor Relations

In 2007, the activities of the Investor Relations team focused on the provision of up-to-date information and open communication with shareholders, institutional investors, analysts and lenders. Discussions with these stakeholder groups centred on Group strategy and business trends in the individual sectors in order to enable the market participants to make a realistic assessment of TUI's future development. The Executive Board met analysts and investors at regular roadshows in Europe and America, at one-on-one meetings and at the analysts' meeting in March 2007 convened to present the annual financial statements for 2006 and to announce the merger between the tourism division and First Choice PLC. Conference calls were held and were met with a high level of interest to present the respective quarterly interim reports. Another forum for discussion with the shareholders was the Annual General Meeting.

As in 2006, shareholders had the opportunity to use an internet tool on the Investor Relations website in order to register for the AGM, order a guest card and instruct one of the proxies provided by the Company. This service was again well received, with approx. 20% of shareholders ordering their admission tickets by means of the new internet tool.

TUI Group in Figures **Five Year Summary**

TUI Group in Figures

		2003	2004	2005	2006	2007
Turnover by the divisions						
Tourism	€ million	12,671	13,319	14,097	14,085	15,638
Shipping	€ million	2,381	2,687	3,834	6,254	6,202
Others	€ million	4,163	2,040	1,688	577	26
Group	€ million	**19,215**	**18,046**	**19,619**	**20,916**	**21,866**
Earnings before interest, tax, depreciation and amortisation (EBITDA)						
Tourism	€ million	532	678	734	779	684
Shipping	€ million	343	392	454	212	621
Others	€ million	847	407	192	193	18
Group	€ million	**1,722**	**1,477**	**1,380**	**1,184**	**1,323**
Earnings before interest, tax and amortisation of goodwill (EBITA)						
Tourism	€ million	200	345	365	388	210
Shipping	€ million	266	300	319	- 106	342
Others	€ million	606	267	166	- 52	- 4
Group	€ million	**1,072**	**912**	**850**	**230**	**548**
Net profit for the year	€ million	**315**	**572**	**496**	**- 843**	**236**
Earnings per share	€	1.54	2.96	2.29	- 3.65	0.61
Assets						
Non-current assets	€ million	10,271	9,871	11,883	10,157	11,507
Current assets	€ million	2,718	2,499	3,491	2,873	4,797
Total assets	€ million	**12,989**	**12,370**	**15,374**	**13,030**	**16,304**
Equity and liabilities						
Equity	€ million	2,767	2,660	4,367	3,007	3,124
Non-current liabilities	€ million	4,204	5,153	5,288	5,259	6,806
Current liabilities	€ million	6,018	4,557	5,719	4,764	6,374
Total equity and liabilities	€ million	**12,989**	**12,370**	**15,374**	**13,030**	**16,304**
Equity ratio	%	**21.3**	**21.5**	**28.4**	**23.1**	**19.2**
Cash flow from operating activities	€ million	**902**	**964**	**965**	**467**	**569**
Capital expenditure	€ million	**724**	**677**	**1,138**	**757**	**1,116**
Net debt	€ million	**3,828**	**3,251**	**3,807**	**3,211**	**3,926**
Employees	31 Dec	**64,257**	**57,716**	**62,947**	**53,930**	**68,521**

Sustainable Development Social responsibility for employees. Environmental quality management. Corporate citizenship.

In order to ensure that the Group achieves its economic, ecological and social objectives to an equal extent, one of TUI's key concerns remains to link its core business processes with relevant sustainability indicators. This approach secures the competitiveness of the individual companies, promotes the potential of Group employees, places Group-wide cooperation with social stakeholders on a systematic basis and improves efficiency in the use of natural resources at the corporate sites and in the holiday destinations.

In July 2007, TUI AG published its sustainability report 'Managing sustainably in the TUI Group: Sustainable development underpinned by Corporate Social Responsibility'. The organisational structures for good environmental and social governance documented in the report and the 'extrafinancial' environmental management performance in tourism and shipping underpin the significant development of Group companies in the implementation of their social responsibility for employees, the environment and society in the 2006/2007 reporting period.

TUI's convincing sustainability performance in 2007 was reconfirmed by international rating agencies and sustainability analysts: TUI AG is the world's only tourism company in the Travel & Tourism subsector that remained listed in the Dow Jones Sustainability Index (DJSI) World. TUI also defended its position in the international ethics indices FTSE4Good, ASPI Eurozone and Ethibel Pioneer Index. With effect from 31 January 2007, TUI AG was admitted to the ECPI Ethical Index €uro. In September 2007, oekom Research AG prepared a corporate responsibility rating for TUI, awarding the Company the investment status rating 'prime'.

Employees

One of the key aspects in the Group's HR activities in 2007 was to promote the commitment, qualification and motivation of its employees. The focus was on initial, ongoing and further training as well as a welter of activities concerning pension schemes and health promotion.

Initial, ongoing and further training

Junior staff development and training

Junior staff development and good internal training play a crucial role in ensuring the competitiveness of Group companies. A total of 720 young employees participated 2007 in training schemes of German companies. Around 75% of the staff in training who finished their training in 2007 closed a work contract. The proportion of staff in training rose from 6.5% to 6.7% and was thus kept at the previous year's high level. TUI again participated in the 'Fit for a job application' project in 2007. Within this project, TUI HR managers supported young people in compiling their job application documents and preparing for job interviews.

Development of senior and executive staff

The steady expansion of HR development activities for senior and executive staff was reconfigured in 2007. Following the inclusion of methods for international top management into capability analysis procedures in 2006, activities focused in particular on the implementation and assessment of personalised development schemes for this group of participants in 2007. Besides specific technical programmes, demand rose for executive coaching. The trainee programme and HR activities for middle management functions focused on providing junior staff with the skills needed to meet the increasingly complex requirements. These groups of employees also increasingly benefited from coaching as a measure to promote the personal development of individuals.

Social responsibility

Pension schemes

The companies of the TUI Group offer their employees many different ways of participating in company-based and private pension schemes. Individual national conditions and the economic situation are taken into account in the design of the models. Schemes offered to employees in Germany included pension fund contracts, direct insurance schemes and private pension insurance funds qualifying for state cosponsorship (Riester pension). In addition, deferred-compensation models were offered, under which employees were able to choose their pension scheme according to their individual preferences. Demand for these schemes rose again in 2007.

Part-time early retirement

In German Group companies, around 360 employees worked under part-time early retirement contracts in 2007. The resulting entitlements of these employees were hedged against insolvency of the employer, irrespective of the effective date of the part-time early retirement contract. TUI thus went substantially beyond the minimum standard required under the amended German part-time early retirement legislation, adopted in 2004, for the benefit of its employees. TUI provided approx. € 15.5 million in 2007 for this purpose.

Health promotion

In accordance with the Luxembourg Declaration on Workplace Health Promotion in the European Union, signed by TUI AG in 2006, a number of measures to emphasise the role of health and well-being at the workplace were initiated. A health programme called 'fit with TUI' was prepared for the employees. Under this programme, the German Group companies offer their employees a comprehensive range of health promotion schemes. In addition, target group-specific health seminars, academy evenings focusing on health issues as well as programmes for the prevention of addictive behaviour were offered alongside company sports schemes, cooperation with fitness centres, and wellness programmes. Moreover, employees were free to participate in campaigns run every year such as flu vaccination, cancer check-ups and therapy programmes for employees with back problems. Health promotion programmes are devised and implemented in cooperation with employees. A mutual exchange of views is secured through regular employee surveys, Group-level meetings of the health coordinators in TUI's Health Network and the debates in local and Group committees.

Company health insurance fund

In the financial year under review, BKK TUI considerably expanded its company health promotion activities. Group companies now offer a large number of individual programmes under the aegis of the BKK, including programmes to prevent musculoskeletal diseases, flu vaccination and diet programmes. Programmes to protect non-smokers had been introduced throughout the Company long before the corresponding statutory activities took effect. The commitment of the companies participating in the programmes was honoured in the form of bonus payments benefiting both the company and its employees. As a result, the arithmetic obligation for 2007 fell to 12.3%, a rate below the average rate charged in Germany.

Health and safety

The Group companies again implemented a large number of health and safety programmes. Besides the tried-and-tested activities such as workplace visits, the preparation of hazard analyses, participation in the preparation of escape and emergency schemes or the permanent training of first-aid and fire protection assistants, interactive instructions for hazardous events were developed and introduced.

Work-life balance

TUI is one of the founder members of the national network 'Success factor family'. The individual Group companies have concluded company agreements in order to support employees in reaching a work-life balance. These efforts are supported by flexible working hour schemes such as part-time and telework schemes, financial support for childcare and the possibility to apply for unpaid leave in order to care for a family member that has fallen ill. At the Hanover site, the 'Little World of TUI', a company crèche offering all-day childcare, was established in 2006. The intranetbased TUI childcare exchange assists employees with children anywhere in Germany in finding appropriate childcare.

Employee representation within the Group

In the TUI Group, both national and international workers' representative schemes existed within individual Group companies and at Group level. In cooperation with the Executive Board and the management of the companies, solutions were found for strategic decisions that also entailed headcount reductions. This included the integration of the tourism entities, except TUI Hotels & Resorts, in TUI Travel PLC, whereby the interests of employees and management were taken into account in a fair and balanced way.

TUI European Forum

The TUI European Forum was established in 1995. In addition to the statutory employee representative bodies required under national legislation, this forum currently comprises 54 workers' representatives from 18 European countries. Group management regularly briefs the Select Committee of the TUI European Forum and discusses the current economic and HR situation within the Group with it. The TUI European Forum meets once a year and renders a significant contribution at international level to the transparency of major entrepreneurial decisions and the integration of different nationalities within the TUI Group.

Environmental management

Further information on environmental protection:
- *'Environment' section in the management report*
- *www.tui-umwelt.com*

The relevant environmental impact of the tourism and shipping divisions was determined as a part of an environmental aspect analysis based on ISO 14001 and taking account of international reporting guidelines (including the G3 Guidelines of the Global Reporting Initiative). Corresponding indicators were selected. Transparent and reproducible indicators were chosen to map the Group's many different activities.

Climate protection through energy efficiency

Aircraft fuel savings thanks to continuous fleet renewal

Greenhouse gas reduction is a global challenge. TUI therefore actively participates in the public debate on climate protection. Concerning greenhouse gas emissions, the debate focuses in particular on aviation. TUI's climate strategy primarily aims to increase its energy efficiency. The TUI Group's emissions data presented in the management report provide a sound basis for the launch of a continuous improvement process. By means of a gradual renewal of TUI's aircraft fleet, a total of 1.47 million tonnes of carbon dioxide is to be saved by 2014. With the introduction of Boeing 'Dreamliner' B787s, aircraft fuel consumption is to be reduced by one quarter in the corresponding long-haul segment. TUI airlines are among the first in Europe to integrate this aircraft into their fleets.

Voluntary carbon offsetting by TUI air tours

Since 2007 TUI has offered its customers the opportunity to offset greenhouse gas emissions resulting from air tours in cooperation with the 'myclimate' foundation. This foundation facilitates tangible climate protection by means of supporting projects to achieve greenhouse gas reductions. 'Myclimate' provides a conversion model showing TUI customers the proportional carbon dioxide (CO_2) emission of the flight they are about to book and the resulting amount of voluntary climate protection duty required to compensate for the CO_2 proportion. The donations made by TUI customers are used by 'myclimate' for a specific development aid projects in Eritrea in Africa. Besides the certified reduction in CO_2, this approach thus also helps to substantially improve the living conditions of people in that area. Other group companies such as TUI UK, TUI Nederland, TUI Nordic and Gebeco also offer voluntary schemes to offset aircraft emissions.

In container shipping, specific emissions per TEU were further reduced through the use of new state-of-the-art container ships with a capacity of 8,750 standard containers (TEU).

Carbon Disclosure Project (CDP) 5

In 2007, the TUI Group again participated in the industry-wide carbon disclosure activities: TUI's emissions balance was described in the Carbon Disclosure Project (CDP) 5 alongside the strategic aspects of TUI's climate-related policy and was thus made accessible to analysts and investors.

The economy and biodiversity

Partnership with UNEP = United Nations Environment Programme

In 2007, TUI cooperated with the Bonn Convention of the United Nations Environment Programme UNEP on the conservation of Migratory Species. The 'Year of the Dolphin' campaign, jointly continued in 2008, aims to continue to raise public awareness of dolphins as one of the most endangered species and to launch and implement initiatives to protect dolphins and their habitats.

As an exclusive sponsor of the campaign, TUI used its worldwide network in the destinations to organise distribution of a dolphin manual, prepared in cooperation with the WDCS Whale and Dolphin Conservation Society, in hundreds of local schools in various destinations. In selected destinations, complementary workshops were held in order to inform participants about the life of the marine mammals and raise awareness of risks and conservation measures. In view of the scope of the project and its alternative approach to education, UNESCO has chosen this campaign as part of the official project of the UN Decade 'Education for Sustainable Development'.

The International Whale and Dolphin Protection Conference held in Tenerife in October 2007 was strongly supported by TUI España, with contributions to the conference programme and assistance in organising and implementing the conference. One of the key results was the preparation of several framework agreements for the protection of small whales and dolphins in western Africa.

Specific activities in the destinations

TUI Environmental Champion for Hotels & Resorts

Further information
www.tui-ecohotel.com

In 2007, Robinson was again awarded the golden TUI Environmental Champion Award. In order for hotel partners to qualify for participation in the environmental quality contest, they have to take part in TUI's environmental monitoring scheme and comply with TUI's minimum standards for environmental quality. Iberotel Sarigerme Park was among the TUI Environmental Champions for the eleventh time and ranked first for the tenth time in succession. The TUI Hotels & Resorts hotel in Dalaman in Turkey has been spearheading ecological innovation for fifteen years.

Environmental quality label 'EcoResort'

Further information
www.ecoresort-tui.com

In the 2007 financial year, TUI Hotels & Resorts again awarded the environmental quality label 'EcoResort' for Group-owned hotel brands, following a review by external environmental experts. All hotels of this sector offer high performance, quality and environmental standards. The criteria to be met in order for a hotel to qualify for the 'EcoResort' label go substantially beyond these standards. 36 Group-owned hotel and club facilities were marked accordingly in the brochures for the 2008 summer season. Besides ecological quality assurance, the quality label aims to promote sustainable development in the holiday regions.

Corporate citizenship

Corporate citizenship is one of the key guidelines for TUI's entrepreneurial action and has been an integral element of its corporate strategy to secure sustainability for many years. TUI AG and its affiliates understand themselves as corporate citizens, contributing to the economic development and improvement in the quality of living in the worldwide corporate sites and tourism destinations.

Aid in the destinations

Projects and initiatives in the destinations

The Moroccan government developed the 'Moroccan Charter for Responsible Tourism'. In 2007, TUI signed the charter as a new member. The joint goal is to promote a development of tourism in harmony with culture, values and traditions as well as nature conservation and environmental protection.

The construction of a hospital in the central Sudanese city of Kosti, financed by TUIfly donations and cosponsored by the German Red Cross, was completed in April 2007. Besides the donations, TUIfly organised, for the third time in succession, an annual transport of around 20 tonnes of aid to Sudan in December 2007.

In 2007, tour guides from the tour operator brand OFT Reisen working in Egypt participated in an intercultural training seminar for tour guides in developing countries. This was held in Cairo by the German Study Group for Tourism and Development. By the summer of 2009, all Egyptian OFT Reisen tour guides will complete the intercultural training and be certified accordingly.

On the occasion of the 15th anniversary of the German Foundation for World Population in 2007, TUI AG assumed sponsorship for two youth clubs in Kenya whose activities include education and information about AIDS.

Support for disadvantaged children and young people

TUI sponsorship

The sponsorship scheme run by TUI employees in Hanover supported in 2007 the local relief organisation 'Hilfe für hungernde Kinder' ('help for starving children') for the second consecutive year. The initiative supports more than 700 children in six sponsored schools and two further facilities where poverty and hunger are very prevalent.

A large number of Group companies in the tourism division continued their worldwide commitment in 2007, to the protection of children against sexual abuse. This was primarily within the ECPAT organisation.

Activities by the foundations

TUI Foundation

Further information
www.tui-stiftung.de

In 2007, the TUI Foundation sponsored more than twenty selected projects in the four main sponsorship areas: science and research, school projects, qualification schemes for unemployed young people, and culture and arts.

In science and research, the focus again was on the project 'Prevention by means of early promotion' by the Criminological Research Institute of Lower Saxony, aimed at supporting children from highest-risk families. Sponsorship of scientific projects in 2007 included the award, for the 20th time, of the Rudolf Schoen Award for the best scientific publication at the Medical University of Hanover.

In cooperation with the Landesverband Paritätischer Niedersachsen e. V. (regional federation of social welfare associations), nine apprenticeship placements for disadvantaged young people were sponsored. In addition, the TUI Foundation supported the START project run by the non-profit Hertie foundation, promoting particularly talented young people with a migration background. In culture and arts, the focus was on theatre projects with and for children and young people. Examples include sponsorship of a project to prevent violence at the newly established Junges Schauspiel Hannover.

Hapag-Lloyd Foundation

Further information
www.hapag-lloyd.de

Sponsorship of cultural projects is an integral element of Hapag-Lloyd's entrepreneurial mission. In 2007, cooperation with selected partners at the Hanover site continued through the Hapag-Lloyd Foundation. As before, the promotion of young artists and talents played an essential role. Outstanding projects included sponsorship of Junges Schauspielhaus in Hamburg, the St. Pauli Theater, the Junges Forum Musik Theater and the restoration training placement for Hamburg-based museums. In addition, the Hapag-Lloyd Foundation sponsored the children relief organisation Plan International by means of assuming sponsorships in China and successfully involved the employees of Hapag-Lloyd AG in this activity.

Scientific cooperation schemes

Further information
www.tui-campus.de

TUI attaches particular importance to the promotion of innovation in the tourism sector and close cooperation with universities and research institutions. In February 2007 the second TUI Campus Symposium was held in Berlin. With TUI Campus, the Group promoted regular dialogue between economists and scientists in order to obtain stimuli for the development of its own business from prestigious institutions.

Financial Statements

complete
focused
efficient
coordinated

138 Financial Statements
138 Consolidated Profit and Loss Statement
139 Consolidated Balance Sheet
140 Statement of Recognised Income and Expenses
140 Cash Flow Statement

141 Notes
141 Notes on the Principles and Methods
162 Segment Reporting
171 Notes on the Consolidated Profit and Loss Statement
181 Notes on the Consolidated Balance Sheet
223 Major Shareholdings
224 Notes on the Cash Flow Statement
226 Other Notes
229 Responsibility Statement by Management
230 Auditor's Report

Profit and Loss Statement of the TUI Group for the period from 1 January to 31 December 2007

€ million	Notes	2007	2006 restated	Restatement	2006 original
Turnover	(1)	21,865.6	20,514.6	–	20,514.6
Cost of sales	(2)	20,331.1	19,205.7	- 39.2	19,244.9
Gross profit		**1,534.5**	**1,308.9**	**39.2**	**1,269.7**
Administrative expenses	(2)	1,385.4	1,382.3	–	1,382.3
Other income/other expenses	(3)	+ 336.0	+ 223.1	6.2	+ 216.9
Impairment of goodwill	(4)	53.7	709.5	–	709.5
Financial income	(5)	209.8	179.3	- 47.4	226.7
Financial expenses	(6)	468.8	401.1	- 7.0	408.1
Result from companies measured at equity	(7)	+ 64.7	+ 50.5	–	+ 50.5
Earnings before income taxes		**237.1**	**- 731.1**	**5.0**	**- 736.1**
Reconciliation to underlying earnings:					
Earnings before income taxes		237.1	- 731.1	5.0	- 736.1
Interest result and earnings from the valuation of interest hedges		257.4	219.1	- 7.0	226.1
Impairment of goodwill		53.7	712.8	–	712.8
EBITA from continuing operations[1]		548.2	200.8	- 2.0	202.8
Adjustments	(8)				
Gains on disposals		*- 193.7*	*- 188.0*	–	*- 188.0*
Restructuring		*68.0*	*167.0*	–	*167.0*
Purchase price allocation		*131.2*	*81.8*	–	*81.8*
Other one-off items		*62.4*	*171.9*	–	*171.9*
Revaluation of convertible options		–	*- 15.0*	–	*- 15.0*
Underlying EBITA from continuing operations		**616.1**	**418.5**	**- 2.0**	**420.5**
Earnings before income taxes		**237.1**	**- 731.1**	**5.0**	**- 736.1**
Income taxes	(9)	+ 0.8	+ 129.4	1.8	+ 127.6
Result from continuing operations		**236.3**	**- 860.5**	**3.2**	**- 863.7**
Result from discontinuing operations	(10)	+ 0.0	+ 17.1	–	+ 17.1
Group profit/loss for the year		**236.3**	**- 843.4**	**3.2**	**- 846.6**
- Group profit for the year attributable to shareholders of TUI AG	(11)	+ 175.1	- 890.3	+ 3.0	- 893.3
- Group profit for the year attributable to minority interests	(12)	+ 61.2	+ 46.9	+ 0.2	+ 46.7
Group profit/loss for the year		**236.3**	**- 843.4**	**3.2**	**- 846.6**

[1] EBITA is equivalent to earnings before interests, income taxes and amortisation of goodwill.

€	Notes	2007	2006 restated	Restatement	2006 original
Basic earnings per share[2]	(13)	**+ 0.61**	**- 3.65**	**+ 0.01**	**- 3.66**
from continuing operations		+ 0.61	- 3.72	+ 0.01	- 3.73
from discontinuing operations		–	+ 0.07	–	+ 0.07
Diluted earnings per share[2]		**+ 0.61**	**- 3.65**	**+ 0.01**	**- 3.66**
from continuing operations		+ 0.61	- 3.72	+ 0.01	- 3.73
from discontinuing operations		–	+ 0.06	–	+ 0.06

[2] In calculating earnings per share in accordance with the rules of IAS 33.12, the after-tax amount of the dividend on the hybrid capital was deducted from Group profit attributable to shareholders of TUI AG since the hybrid capital represents equity but does not represent equity attributable to shareholders of TUI AG.

Balance Sheet of the TUI Group as at 31 December 2007

€ million	Notes	31 Dec 2007	31 Dec 2006 restated	Restatement	31 Dec 2006 original
Assets					
Goodwill	(14)	3,058.3	3,134.8	–	3,134.8
Other intangible assets	(15)	1,373.8	604.9	–	604.9
Investment property	(16)	90.5	95.7	–	95.7
Property, plant and equipment	(17)	5,706.2	5,162.1	16.4	5,145.7
Companies measured at equity	(18)	540.7	407.7	–	407.7
Financial assets available for sale	(19)	108.2	117.3	–	117.3
Trade accounts receivable and other receivables	(20)	408.8	351.7	–	351.7
Derivative financial instruments	(21)	28.8	7.8	–	7.8
Deferred income tax claims	(22)	192.3	275.6	–	275.6
Non-current assets		**11,507.6**	**10,157.6**	**16.4**	**10,141.2**
Inventories	(23)	208.7	129.3	–	129.3
Financial assets available for sale	(19)	13.7	5.8	–	5.8
Trade accounts receivable and other receivables	(20)	2,496.3	1,778.0	–	1,778.0
Derivative financial instruments	(21)	413.1	76.2	–	76.2
Current income tax claims	(22)	42.0	23.4	–	23.4
Cash and cash equivalents	(24)	1,614.0	688.7	–	688.7
Assets held for sale	(25)	8.8	171.4	–	171.4
Current assets		**4,796.6**	**2,872.8**	–	**2,872.8**
		16,304.2	**13,030.4**	**16.4**	**13,014.0**

€ million	Notes	31 Dec 2007	31 Dec 2006 restated	Restatement	31 Dec 2006 original
Equity and liabilities					
Subscribed capital	(26)	642.3	641.7	–	641.7
Capital reserves	(27)	2,471.9	2,396.2	–	2,396.2
Revenue reserves	(28)	- 582.2	- 604.4	- 6.5	- 597.9
Hybrid capital	(29)	294.8	294.8	–	294.8
Equity before minority interests		**2,826.8**	**2,728.3**	**- 6.5**	**2,734.8**
Minority interests	(30)	297.4	279.1	3.6	275.5
Equity		**3,124.2**	**3,007.4**	**- 2.9**	**3,010.3**
Pension provisions and similar obligations	(31)	825.2	1,056.1	–	1,056.1
Current income tax provisions	(32)	256.3	177.0	–	177.0
Deferred income tax provisions	(32)	245.5	57.6	- 2.5	60.1
Other provisions	(32)	489.9	435.5	–	435.5
Non-current provisions		**1,816.9**	**1,726.2**	**- 2.5**	**1,728.7**
Financial liabilities	(33)	4,732.8	3,477.6	–	3,477.6
Derivative financial instruments	(35)	126.4	27.0	–	27.0
Other liabilities	(36)	130.4	28.3	–	28.3
Non-current liabilities		**4,989.6**	**3,532.9**	–	**3,532.9**
Non-current provisions and liabilities		**6,806.5**	**5,259.1**	**- 2.5**	**5,261.6**
Pension provisions and similar obligations	(31)	31.7	29.0	–	29.0
Current income tax provisions	(32)	62.3	87.8	–	87.8
Other provisions	(32)	531.6	597.7	21.8	575.9
Current provisions		**625.6**	**714.5**	**21.8**	**692.7**
Financial liabilities	(33)	807.4	422.0	–	422.0
Trade accounts payable	(34)	2,679.0	1,958.4	–	1,958.4
Derivative financial instruments	(35)	174.4	116.2	–	116.2
Other liabilities	(36)	2,087.1	1,550.7	–	1,550.7
Current liabilities		**5,747.9**	**4,047.3**	–	**4,047.3**
Liabilities related to assets held for sale	(37)	**0.0**	**2.1**	–	**2.1**
Current provisions and liabilities		**6,373.5**	**4,763.9**	**21.8**	**4,742.1**
		16,304.2	**13,030.4**	**16.4**	**13,014.0**

Statement of Recognised Income and Expenses

€ million	2007	2006 restated
Currency translation	- 159.5	- 216.7
Recognition of differences from currency translations in profit or loss	5.9	68.4
Change in value of companies measured at equity with no effect on profit or loss	32.1	- 11.8
Changes in the fair value of available for sale financial instruments	0.1	15.1
Recognition of available for sale financial instruments in profit or loss	- 13.5	–
Changes in the fair value of cash flow hedges	76.2	- 237.4
Recognition of results of cash flow hedges in profit or loss	143.6	- 109.0
Actuarial gains and losses from pension provisions and related fund assets	199.8	183.7
Tax item directly offset against equity	- 168.3	64.7
Income and expenses directly recognised in equity	**116.4**	**- 243.0**
Group profit/loss	236.3	- 843.4
Total income and expenses recognised in the financial year	**352.7**	**- 1,086.4**
attributable to shareholders of TUI AG	316.3	- 1,120.9
attributable to minority interest	36.4	34.5

Cash Flow Statement

€ million	Notes	2007	2006 restated	Var.
Group profit/loss		236.3	- 843.4	1 079.7
Depreciation, amortisation and impairments (+)/write-back (-)		827.4	1,449.1	- 621.7
Other non-cash expenses (+)/income (-)		- 58.3	- 13.0	- 45.3
Interest expenses (excl. interest relating to pension obligations)		321.2	265.1	56.1
Profit (-)/ Loss (+) from disposals of non-current assets		- 269.2	- 273.9	4.7
Increase (-)/decrease (+) in inventories		- 62.4	- 45.1	- 17.3
Increase (-)/decrease (+) in receivables and other assets		- 262.6	32.6	- 295.2
Increase (+)/decrease (-) in provisions		0.2	15.7	- 15.5
Increase (+)/decrease (-) in liabilities (excl. financial liabilities)		- 164.1	- 120.6	- 43.5
Cash inflow/outflow from operating activities	(41)	**568.5**	**466.5**	**102.0**
Payments received from disposals of property, plant and equipment, investment property and intangible assets		517.2	610.2	- 93.0
Payments received from disposals of consolidated companies (excl. disposals of cash and cash equivalents due to divestments)		- 11.8	719.7	- 731.5
Payments received from the disposals of other non-current assets		97.4	54.8	42.6
Payments made for the investment in property, plant and equipment, investment property and intangible assets		- 1,168.5	- 657.9	- 510.6
Payments made for investments in consolidated companies (excl. cash and cash equivalents received due to acquisitions)		- 111.5	- 43.9	- 67.6
Payments made for the investment in other non-current assets		- 34.4	- 51.3	16.9
Cash inflow/outflow from investing activities	(42)	**- 711.6**	**631.6**	**- 1,343.2**
Payments received from capital increases and allowances by shareholders		6.7	8.9	- 2.2
Dividend payments				
- TUI AG		- 27.4	- 193.1	165.7
- subsidiaries to other shareholders		- 28.9	- 16.5	- 12.4
Payments received from the issue of loans and the raising of financial liabilities		2,034.3	611.1	1,423.2
Payments made for redemption of loans and financial liabilities		- 987.6	- 1,223.2	235.6
Interest paid		- 298.1	- 232.9	- 65.2
Cash inflow/outflow from financing activities	(43)	**699.0**	**- 1,045.7**	**1,744.7**
Net change in cash and cash equivalents		**555.9**	**52.4**	**503.5**
Development of cash and cash equivalents	(44)			
Cash and cash equivalents at beginning of period		**688.7**	**607.5**	**81.2**
Change in cash and cash equivalents due to changes in the group of consolidated companies		441.7	25.7	416.0
Change in cash and cash equivalents due to exchange rate fluctuations		- 72.3	3.1	- 75.4
Change in cash and cash equivalents with cash effects		555.9	52.4	503.5
Cash and cash equivalents at end of period[1)]		**1,614.0**	**688.7**	**925.3**

[1)] No cash and cash equivalents are accounted for the balance sheet item assets held for sale as of 31 December 2007 and the previous year.

Notes Principles and methods underlying the Consolidated Financial Statements

General

TUI AG, based in Hanover, Karl-Wiechert-Allee 4, is the TUI Group's parent company and a listed stock corporation under German law. The Company has been registered in the commercial registers of the district courts of Berlin-Charlottenburg (HRB 321) and Hanover (HRB 6580).

TUI continues to operate two core businesses, tourism and shipping. The tourism division comprises TUI Travel PLC, a company newly established in the 2007 financial year in the wake of a merger between the TUI tourism division – with the exception of the hotels managed by TUI Hotels & Resorts – and the First Choice Holidays Group, as well as the TUI Hotels & Resorts sector. In the shipping division TUI Group operates Hapag-Lloyd, one of the world's five leading container lines, and cruise activities operated by Hapag-Lloyd in the German-speaking premium and luxury market.

The members of the Executive Board and the Supervisory Board as well as other board mandates held by them are listed separately in an annex to the section 'Corporate Governance' in the annual report.

The Executive Board and the Supervisory Board have submitted the declaration of compliance concerning the German Corporate Governance Code required pursuant to section 161 of the German Stock Corporation Act (AktG) and made it permanently accessible to the general public on the Company's website (www.tui-group.com).

The financial year of TUI AG corresponds to the calendar year. If any of its subsidiaries (in particular those of the TUI Travel PLC Group) use other closing dates, audited interim financial statements are prepared in order to include these subsidiaries in the TUI Group's consolidated financial statements.

The consolidated financial statements were prepared in euro. Unless stated otherwise, all amounts were indicated in million euros (€ m).

Accounting principles

Pursuant to section 315a sub-section 1 of the German Commercial Code (HGB), in combination with the relevant EU Regulation (EEC No. 1606/2002), TUI AG is legally obliged to prepare consolidated financial statements in accordance with the rules of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS).

The IFRS were applied in the form in which they have been transposed into national legislation in the framework of the endorsement process by the European Commission. In addition, the commercial-law provisions listed in section 315 sub-section 1 of the German Commercial Code were also complied with. As of the beginning of the 2007 financial year, the following interpretations published by the IASB, had to be applied:

IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives', IFRIC 10 'Interim Financial Reporting and Impairment'. The application of these standards did not give rise to any material changes to the TUI Group's accounting and measurement methods.

In addition, application of the newly adopted IFRS 7 'Financial Instruments: Disclosure' and the changes concerning additional disclosures related to capital management under IAS 1 'Presentation of Financial Statements' had to be applied as of 1 January 2007. Accordingly, the additional disclosures required in the notes for the year under review and the previous year as a result of these new standards were incorporated in the present financial statements.

The following directly approved, revised or newly issued standards and interpretations by the IASB, were not yet applicable in the 2007 financial year:

Summary of new standards not yet applied

Standard/Interpretation		Applicable from	Endorsement by the EU Commission
IAS 1	Presentation of financial statements – a revised presentation	1 January 2009	No
IAS 23	Borrowing costs – Annihilation of the option and adoption of the obligation to capitalise	1 January 2009	No
IAS 27	Consolidated and separate financial statements – Amendments concerning change of control	1 July 2009	No
IFRS 2	Share-based payments – Vesting: conditions and cancellation	1 January 2009	No
IFRS 3	Business combinations – revised: consolidation and accounting of goodwill	1 July 2009	No
IFRS 8	Operating segments	1 January 2009	Yes
IFRIC 11	IFRS 2 – Group and treasury share transactions	1 March 2007	Yes
IFRIC 12	Service concession arrangements	1 January 2007	No
IFRIC 13	Customer loyality programmes	1 July 2008	No
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008	No

This table exclusively lists regulations that will be effective as of the 2008 financial year or later, with endorsement of some regulations by the EU Commission still pending. The detailed effects of the application of these standards on TUI AG's consolidated financial statements are currently not yet known or cannot be reasonably assessed.

Changes in accounting and valuation methods and the structure of items of the profit and loss statement

According to IAS 8, the effects on the previous year's figures of changes in accounting and valuation methods implemented in the current financial year must be shown by restating the previous year's figures. In order to enhance comparability, the restated previous year's figures both for the profit and loss statement and the balance sheet are presented alongside the originally published previous year's figures.

Since the beginning of the 2007 financial year, TUI AG has exercised the option under IAS 1 to structure the consolidated profit and loss statement according to the cost of sales. Under this format turnover is presented together with the cost of sales incurred to generate the turnover. Structuring the consolidated profit and loss statement in accordance with the cost of sales format enhances the international comparability of reporting. This change in the presentation format relates to all operating income and expenses with the exception of turnover.

Using the allowed alternative treatment under IAS 23, TUI AG has changed its accounting method for borrowing costs in connection with qualified assets. The accounting method now applied results in the capitalisation of borrowing costs directly attributable to the acquisition, construction or production of qualified assets (in particular aircraft, hotels and ships within TUI Group). This presentation provides a more meaningful presentation of the acquisition costs for assets entailing major financing costs and facilitates comparison with the acquisition costs of assets for which the financing costs have been included in the calculation of the purchase price.

The capitalisation of borrowing costs had the following effects on items in the consolidated financial statements:

Effect of the capitalisation of borrowing costs on items in the consolidated profit and loss statement

€ million	2007	2006
Cost of sales (depreciations)	0.4	0.4
Other income/other expenses	- 4.0	- 1.6
Interest expenses	- 14.9	- 7.0
Income taxes	1.8	1.8
Group profit	**8.7**	**3.2**

Effect of the capitalisation of borrowing costs on items in the consolidated balance sheet

€ million	31 Dec 2007	31 Dec 2006
Property, plant and equipment	26.9	16.4
Revenue reserves	21.0	12.3
Provision for deferred taxes	5.9	4.1

The interest rate for inter-group financing is 5.81% for the financial year 2007 and 5.63% for 2006.

The retroactive application of the capitalisation of borrowing costs resulted in an increase in revenue reserves of € 9.1 million in the opening balance sheet as per 1 January 2006. The change of this method does not have any significant change on the cash flow or the earnings per share.

Besides the changes to the recognition and valuation methods resulting from the exercise of alternative treatment options offered under individual standards, the following adjustments were made:

Due to the integration of the operating activities of the CP Ships Group in Hapag-Lloyd, the primary economic environment of the shipping division changed fundamentally, so that the functional currency was changed from Euro to US dollar. The assessment of the functional currency was based on both, freight rates as well as cash inflow and cost structures. Since 1 January 2007, the operating container shipping companies have therefore prepared their financial statements in US dollar.

In the period under review, the valuation method for provisions for leased aircraft maintenance work was changed. As a result, the corresponding provisions rose by a total of € 21.8 million as at 31 December 2006. At the same time, provisions for deferred income taxes declined by € 6.6 million.

In order to enhance international comparability, the expenses and income from changes in the value of financial instruments due to hedging transactions for bunker oil, aircraft fuel and future cash flows in foreign currencies were allocated to the expense or income items under which the hedged item were reported and were no longer shown under the financial result. As a result, the financial result declined by € 47.4 million for 2006 and € 126.5 million for the 2007 financial year.

Principles and methods of consolidation

Principles

The consolidated financial statements included all major companies in which TUI AG was able, directly or indirectly, to determine the financial and operating policies so as to obtain benefits from the activity of these companies (subsidiaries). As a rule, the control was exercised by means of a majority of voting rights. The consolidation of the RIUSA II Group was based on de facto control, with TUI AG and the co-shareholder holding equal interests and voting rights. In the light of overall conditions and circumstances, TUI AG was able in this case to determine the financial and operating policies so as to obtain benefits from the activity of this hotel group. In assessing whether the Group is able to exercise control, the existence and effect of potential voting rights which may currently be exercised or converted are taken into account. Consolidation of such companies started as from the date at which the TUI Group gained control. When the TUI Group ceased to control the corresponding companies, they were removed from consolidation.

The consolidated financial statements were prepared on the basis of the annual individual or consolidated financial statements of TUI AG and its subsidiaries, prepared on the basis of uniform accounting, valuation and consolidation methods and audited by auditors.

Shareholdings in companies in which the Group was able to exert significant influence over the financial and operating decisions within these companies (associated companies, where as a matter of principle there is shareholdings of 20% but less than 50%) were carried at equity. Companies managed jointly with one or several partners (joint ventures) were also measured at equity. The dates as of which associated companies and joint ventures were included in or removed from the group of companies measured at equity were determined in analogy to the principles applying to subsidiaries. At equity measurement in each case was based on the last audited annual or consolidated financial statements, whereas the financial year corresponded to the calendar year. One joint venture had a differing financial year from 1 April to 31 March and three companies had financial years from 1 November to 31 October of the following year.

Group of consolidated companies

In the 2007 financial year, the consolidated financial statements included besides TUI AG a total of 46 domestic and 683 foreign subsidiaries.

56 domestic and 93 foreign subsidiaries were not included in the consolidated financial statements. Even when taken together, these companies were not significant for the presentation of a true and fair view of the financial position and performance of the Group.

Since 31 December 2006, a total of 369 companies were included in consolidation for the first time. This number included 342 companies (including TUI Travel PLC) added to consolidation due to the acquisition of control over First Choice Holidays PLC on 3 September 2007. In addition, a further 20 companies were added to the group of consolidated companies due to acquisitions. Five additional companies were added to consolidation due to the expansion of their business activities, and two newly established companies were included in consolidation in 2007. The additions to consolidation included 367 companies added to the tourism division, with two companies added to the shipping division.

Since 31 December 2006, a total of 27 companies were removed from the group of consolidated companies. Eleven of these companies were from the tourism division while 16 companies had been operating in the shipping division. Six of the deconsolidated companies were removed from the group of consolidated companies due to the sale of the Irish Budget Travel Group. A further 21 companies were deconsolidated due to the liquidation or merger of companies.

Seventeen associated companies and 33 joint ventures were measured at equity. The group of companies measured at equity declined by four year-on-year. While two companies were added to the group of consolidated companies due to the purchase of additional shares, four companies were removed from the group of companies measured at equity due to the sale of shares, liquidation or reduction of the business activities. Additions to this group mainly resulted from the acquisition of interests in two companies. One company was reclassified from associated companies to joint ventures.

Development of the group of consolidated companies[1)] and the group of companies measured at equity

	Balance 31 Dec 2006	Additions	Disposals	Balance 31 Dec 2007
Consolidated subsidiaries	**387**	**369**	**27**	**729**
Domestic companies	39	8	1	46
Foreign companies	348	361	26	683
Associated companies	**22**	**1**	**6**	**17**
Domestic companies	5	–	1	4
Foreign companies	17	1	5	13
Joint ventures	**32**	**2**	**1**	**33**
Domestic companies	7	–	1	6
Foreign companies	25	2	–	27

[1)] excl. TUI AG

The major direct and indirect subsidiaries, associated companies and joint ventures of TUI AG are listed in the major shareholdings section. A complete list of shareholdings is published in the electronic Federal Gazette (www.ebanz.de).

The effects of the changes in the group of consolidated companies in the 2007 financial year on the years 2007 and 2006 are outlined below. While the balance sheet values of companies removed from consolidation in the 2007 financial year were shown as per closing date for the previous period, the items in the profit and loss statement were also shown for the 2007 financial year due to prorated effects.

Effects of changes in the group of consolidated companies on the consolidated balance sheet

€ million	Additions 31 Dec 2007	Disposals 31 Dec 2006
Non-current assets	5,156.0	4.5
Current assets	1,665.6	72.2
Non-current provisions	387.8	–
Current provisions	57.7	0.4
Non-current financial liabilities	718.6	–
Current financial liabilities	10.2	–
Non-current other liabilities	106.4	0.0
Current other liabilities	3,419.9	15.2

Effects of changes in the group of consolidated companies on the consolidated profit and loss statement

€ million	Additions 2007	2007	Disposals 2006
Turnover with third parties	1,356.5	151.9	158.7
Turnover with consolidated Group companies	63.2	4.4	5.7
Cost of sales	1,374.9	146.5	158.4
Administrative expenses	220.4	5.2	8.7
Other income/other expenses	+ 1.1	- 2.0	0.0
Financial income	33.6	2.4	0.8
Financial expenses	86.2	–	–
Earnings before income taxes	**- 227.1**	**5.0**	**- 1.9**
Income taxes	- 42.6	0.7	- 0.2
Income from transfer of losses from affiliated companies	90.4	–	–
Result from continuing operations	- 94.1	4.3	- 1.7
Result from discontinuing operations	–	–	–
Group profit/loss for the year	**- 94.1**	**4.3**	**- 1.7**

Acquisitions – divestments

Through the purchase agreement dated 31 January 2007, the tour operator TUI Deutschland GmbH purchased the remaining 25% of the ordinary share capital of E.V.S. Beteiligungsgesellschaft mbH, Rengsdorf (Berge & Meer Group). This company had already been consolidated by the TUI Group, at a purchase price of € 19.1 million in addition to the 75% share already held.

On 4 June 2007, the EU Commission approved the merger, agreed on 19 March 2007, between TUI's tourism division – with the exception of the hotel companies operated by TUI Hotels & Resorts – and the British travel group First Choice Holidays PLC to form TUI Travel PLC. Approval was granted subject to the condition that TUI AG sells its Irish subsidiary Budget Travel. On 29 June 2007, TUI AG and First Choice Holidays PLC published the prospectus for TUI Travel PLC, the company created by the planned merger, in order to enable admission to trading on the London Stock Exchange. On 25 July 2007, the shareholders of First Choice Holidays PLC approved the merger at an extraordinary annual general meeting.

The merger was implemented on 3 September 2007 by means of a share swap with the newly established TUI Travel PLC, whose shares have since been traded on the London Stock Exchange. In the wake of this share swap, TUI AG received 51.0% of the shares in TUI Travel PLC and a compensation claim to create the debt agreed in the Merger Agreement for TUI's tourism division involved in the merger in exchange for all shares in companies of TUI's tourism division held by the TUI Group. The share swap in First Choice Holidays PLC was effected by means of a scheme of

arrangement under which one share in First Choice Holidays PLC was swapped into one share in TUI Travel PLC. TUI AG now holds with 51.0% of issued shares in the company, i.e. the majority of voting rights, while the former shareholders of First Choice Holidays PLC hold 49.0% of the shares in TUI Travel PLC.

Pursuant to IFRS 3, the transfer of TUI's tourism division had to be treated as a 'transaction under common control' and was therefore explicitly excluded from the scope of IFRS 3 with regard to TUI's tourism division.

The equity of the First Choice Holidays Group, provisionally determined in accordance with the International Reporting Standards, totals GBP - 65.7 million (€ - 97.1 million). In accordance with IFRS 3, the fair values of the assets, liabilities and contingent liabilities acquired and the acquisition costs have only been calculated on a provisional basis to date due to the short period passed since the acquisition of the extensive First Choice Holidays Group. The proportionate net assets of TUI tourism division at fair value on the day of the stock exchange was € 1,164.6 million plus incidental costs of € 12.3 million. The elimination of the acquisition costs against the proportionate, provisionally revalued equity taking into account the minority share (€ - 50.8 million) resulted in the capitalisation of goodwill of the equivalent of € 1,227.7 million in the consolidated balance sheet.

Balance sheet of the First Choice Holidays Group as at the date of first-time consolidation

	Carrying amounts at date of acquisition		Revaluation of assets and liabilities		Revalued carrying amounts at date of first-time consolidation	
	£ million	€ million	£ million	€ million	£ million	€ million
Goodwill	697.5	1,030.9	- 697.5	- 1,030.9	0.0	0.0
Other intangible assets	109.4	161.7	547.9	809.8	657.3	971.5
Property, plant and equipment	268.0	396.1	4.2	6.2	272.2	402.3
Investments	35.2	52.0	–	–	35.2	52.0
Fixed assets	**1,110.1**	**1,640.7**	**- 145.4**	**- 214.9**	**964.7**	**1,425.8**
Inventories	21.6	31.9	–	–	21.6	31.9
Trade accounts receivable	271.9	401.9	–	–	271.9	401.9
Other receivables, other assets and prepaid expenses	388.0	343.9	–	–	232.7	343.9
Deferred income tax provisions	1.3	1.9	5.1	7.5	6.4	9.4
Cash and cash equivalents	322.4	476.5	–	–	322.4	476.5
Pension provisions	7.0	10.3	–	–	7.0	10.3
Current and deferred income tax provisions	24.4	36.1	162.0	239.4	186.4	275.5
Other provisions	53.1	78.5	17.6	26.0	70.7	104.5
Financial liabilities	559.9	827.5	–	–	559.9	827.5
Trade accounts payable	674.3	996.6	–	–	674.3	996.6
Other liabilities	545.5	806.2	- 3.1	- 4.6	542.4	801.6
Equity	**251.1**	**371.1**	**- 316.8**	**- 468.2**	**- 65.7**	**- 97.1**
of which minority interest	0.9	1.3	–	–	0.9	1.3

In the period from September to December, the First Choice Holidays Group posted external turnover of GBP 945.4 million (€ 1,342.5 million) with earnings after tax of GBP - 57.1 million (€ - 81.0 million) including the depreciation of the revalued assets carried in the wake of the purchase price allocation. Taking account of TUI Travel PLC's loss for the year, earnings after tax showed an interest-induced decline of a further GBP 7.6 million (€ 10.8 million). From the beginning of the financial year until the date of first-time consolidation, the First Choice Holidays Group generated turnover of GBP 2,231.0 million (€ 3,305.2 million) an underlying EBITA of GBP 136.7 million (€ 202.5 million) and an EBITA of GBP 70.3 million (€ 104.1 million) as well as earnings after tax of GBP 21.0 million (€ 31.1 million).

In March 2007, the Italian Tenuta di Castelfalfi S.p.A., established in 2006 with a co-partner holding a 15.0% stake, acquired around 1,100 hectares of land with historical buildings in Tuscany, in the Montaione municipality, at a purchase price (including incidental costs) of a total of € 105.6 million. In connection with the comprehensive hotel and property project 'Toscana Resort Castelfalfi', based on this property purchase, the land and buildings were carried at their fair values, provisionally determined for similar property based on the sales comparison approach in accordance with IFRS 3. The fair value of the land and buildings was provisionally determined as € 45.0 million and recognised accordingly in the balance sheet. This resulted in goodwill of € 60.6 million.

In addition, a further 17 companies were acquired in the financial year under review at total acquisition costs of € 115.8 million (incl. incidental costs).

Summary presentation of other acquisitions

Name and headquarters of the acquired company	Business activity	Acquirer	Date of acquisition	Acquired share %	Acquisition costs[1] € million
Holidays Services S.A. (Morocco) including their 100% share in a further tourism company	Tourism tour operator	TUI AG	30 May 07	40.2[2]	4.6
Starquest Expeditions, Inc. (Seattle, USA)	Provider of luxury tours	First Choice Holding, Inc.	1 Sep 07	100.0	36.8
New Horizons Tour & Travel, Inc. (Jackson, USA)	Provider of study tours	First Choice Holding, Inc.	7 Sep 07	100.0	3.7
Travel Turf, Inc. (Allentown, USA)	Provider of study tours under the rand name World Class Vacations	First Choice Holding, Inc.	14 Sep 07	100.0	6.6
Asiarooms Pte., Ltd. (Singapore)	Agency for hotel accommodation	Pacific World Singapore Pte., Ltd.	28 Sep 07	100.0	34.5
National Tours, Inc. (Utah, USA)	Tour operator for sports and music events	First Choice Holding, Inc.	13 Nov 07	100.0	1.1
Cruiselink II Ltd. (New Jersey, USA)	Provider of services for Cruise companies	First Choice Holding, Inc.	28 Nov 07	100.0	6.1
CHS Tour Services GmbH (Austria) including their 100% share in three further tourism companies	Special tour operator for skiing-courses for schools	Ski Bound Ltd.	6 Dez 07	100.0	16.8
Pinnacle Tours PTY (Perth, Australia) including four further 100% shares	Special tour operator for Australia	Trek America Travel Ltd.	6 Dez 07	100.0	5.6
Total					**115.8**

[1] The acquisition costs in foreign currencies were translated into € at the exchange rate as at the date of the respective transaction and also comprised the incidental costs.

[2] Following the acquisition of 42.3%, TUI AG now holds 90.2% of the shares of the previous joint venture.

Besides the purchase prices already paid, the cost of acquisition in some cases also comprised the best possible estimate of additional purchase price portions depending on future events.

Summary presentation of the other balance sheets as at the date of first-time consolidation

€ million	Carrying amounts at date of acquisition	Revaluation of assets and liabilities	Revalued carrying amounts at date of first-time consolidation
Intangible assets	0.6	29.0	29.6
Property, plant and equipment	3.7	–	3.7
Investments	1.2	–	1.2
Fixed assets	**5.5**	**29.0**	**34.5**
Inventories	0.2	–	0.2
Receivables and other assets including prepaid expenses	14.8	–	14.8
Cash and cash equivalents	24.3	–	24.3
Deferred income tax provisions	–	9.2	9.2
Other provisions	3.0	–	3.0
Financial liabilities	2.4	–	2.4
Liabilities and deferred income	48.6	–	48.6
Equity	**- 9.2**	**19.8**	**10.6**

The difference of € 105.2 million between the cost of acquisition and the revaluated net assets acquired was provisionally carried as goodwill for the respective companies.

Since the date of first-time consolidation, the companies mentioned above have generated turnover of € 11.0 million and earnings after income taxes of € 1.1 million. Until the date of the transfer of the shares, the companies generated turnover of € 75.3 million and earnings after tax of € 1.0 million.

With effect from 5 January 2007, the minority share in Germanischer Lloyd AG held by Hapag-Lloyd AG (around 2.6%) was sold at a purchase price of € 15.1 million. In accordance with IFRS 5, this minority interest was classified as a non-current asset held for sale and shown in a separate balance sheet item as at the end of the 2006 financial year.

On 21 February 2007, CP Ships Limited concluded a contract concerning the sale of the essential assets and liabilities of Montreal Gateway Terminals to Montreal Gateway Terminals Limited Partnership, a company established for that purpose by Morgan Stanley Infrastructure Partners. The agreements were effective as at 9 March 2007. Montreal Gateway Terminals were part of the business operations of the container shipping line CP Ships, acquired in 2005.

Since the sales negotiations had become increasingly specific, the assets and liabilities of Montreal Gateway Terminals held for sale had already been classified as a disposal group in accordance with IFRS 5 and shown in separate balance sheet items as at the end of the 2006 financial year.

Until 9 March of the 2007 financial year, Montreal Gateway Terminals generated turnover of € 17.1 million and earnings after tax of € 1.4 million. In the first quarter of 2006, turnover amounted to € 25.8 million with earnings of € 9.9 million.

The container terminal business was acquired at a price of the equivalent of € 324.6 million by Montreal Gateway Terminals Limited Partnership in the form of an asset deal. The purchase price was paid in cash for the most part, with the remainder

paid in the form of a transfer of a 20% share in the new company. This interest was measured at equity by the TUI Group. After deduction of expenses of € 4.6 million associated with the sale and taking account of the disposal of the goodwill thus removed totalling the equivalent of € 4.4 million, the divestment generated overall positive earnings before tax of € 185.4 million in the shipping division in the 2007 financial year.

In complying with the condition linked to the approval of the merger between First Choice Holidays PLC and TUI's tourism division to form TUI Travel PLC by the anti-trust authorities, all shares held in the Irish Budget Travel Group were sold to the Islandic Primera Travel Group against payment of € 5.5 million with a book loss of € 6.8 million in October 2007. The goodwill of this Irish TUI group had previously been fully amortised in the third quarter of 2007 at an amount of € 33.7 million on the basis of the value ratios of the forthcoming divestment. From January to August 2007, the Budget Travel Group generated turnover of € 129.2 million and earnings after tax of € 5.4 million. For the entire year 2006, this group had posted turnover of € 169.2 million and a loss after income taxes of € 1.5 million.

Currency translation

Foreign currency transactions were translated into the functional currency at the exchange rates as at the date of the transaction. Any gains and losses resulting from the execution of such transactions and the translation of monetary assets and liabilities in foreign currencies at the exchange rate as at the date of the transaction were shown in the profit and loss statement, with the exception of gains and losses to be carried in equity as qualified cash flow hedges.

The financial statements of companies have been prepared in the respective functional currency. The respective functional currency corresponds to the currency of the economic environment in which the company primarily operates. With the exception of the operative container shipping companies and two companies in the tourism division, the functional currencies of all subsidiaries corresponded to the currency of the country of incorporation of the respective subsidiary.

Where subsidiaries prepared their financial statements in currencies other than the euro, i.e. the Group's reporting currency, the assets, liabilities and balance sheet notes were translated at the mean rate of exchange applicable at the balance sheet date (closing rate). Goodwill allocated to these companies and adjustments of the fair value arising on the acquisition of a foreign company were treated as assets and liabilities of the foreign company and also translated at the closing rate. The items of the profit and loss statement and hence the profit for the year shown in the profit and loss statement were translated at the annual average rate. Any currency differences arising from the translation of net investments in economically independent foreign sub-entities, debt and other currency instruments classified as hedges of such investments were carried in equity with no effect on results.

Translation differences related to non-monetary items with changes in their fair values eliminated with an effect on results (e.g. equity instruments measured at fair value through profit and loss) were carried as a gain or loss from measurement at fair value in the profit and loss statement. In contrast, translation differences for non-monetary items with changes in their fair values taken to equity (e.g. equity instruments classified as held for sale) were carried in revenue reserves under the revaluation reserve.

The TUI Group did not hold any subsidiaries operating in hyperinflationary economies in the financial year under review, nor in 2006.

The currency translation of the financial statements of foreign companies measured at equity followed the same principles for adjusting equity and translating goodwill as those used for consolidated subsidiaries.

Differences resulting from the translation of the financial statements of foreign subsidiaries were carried with no effect on results and separately shown as differences from currency translation in the statement of changes in equity. When a foreign company or operation was sold, any currency differences previously carried in equity with no effect on results were recognised as a gain or loss from disposal in the profit and loss statement. If the net investment in a foreign company or operation was reduced, the corresponding currency differences were realised through profit and loss at an amount in relation to that reduction.

Exchange rates of relevant currencies to the TUI Group

	Closing rate		Average rate	
each €	31 Dec 2007	31 Dec 2006	2007	2006
British pound sterling	0.73	0.67	0.68	0.68
US dollars	1.47	1.32	1.37	1.26
Swiss francs	1.66	1.61	1.64	1.57
Swedish kronas	9.44	9.04	9.25	9.25

Consolidation methods

The accounting of the net assets of acquired subsidiaries was based on the purchase method. Accordingly, initially irrespective of existing minority shares, a complete fair value measurement of all identifiable assets, liabilities and contingent liabilities was effected as at the acquisition date. Subsequently, the acquisition costs plus the costs directly attributable to the acquisition, were eliminated against the revalued equity allotted to the acquired interest. Debit differences from acquisitions were recognised as goodwill for all companies purchased since 1 October 1995 and recognised as an asset for the acquired subsidiary in accordance with the provisions of IAS 21. Debit differences from acquisitions arising before that date continued to be eliminated against other revenue reserves. Any negative goodwill was immediately reversed with an effect on results, with the reversal effect carried under 'Other income'.

Due to the application of IRFS 3 'Business Combinations', goodwill was no longer amortised. Goodwill was regularly tested for impairment, at least annually, following the completion of the annual planning process. Additional impairment tests were effected if any triggering events suggested a potential impairment in goodwill.

As before, transactions involving minority interests were treated in the same way as transactions with equity providers for the Group. Goodwill arising in the framework of the acquisition of minority interests was directly eliminated against other revenue reserves. Goodwill arising in the framework of the divestment of minority interests was also directly carried in other revenue reserves.

In the event of acquisitions in stages, a complete fair value measurement of assets and liabilities of the acquired company was effected as at every acquisition date. The goodwill to be recognised arose from the elimination of the acquisition cost against the acquiree's revalued equity attributable to the acquired share at the

respective acquisition date. Any changes in the fair values of assets and liabilities arising in between the acquisition dates were recognised in equity in the consolidated balance sheet in accordance with the participation quota which did not yet result in consolidation of the company, with no effect on results and were carried in the revaluation reserve. In the framework of the removal of a company from consolidation, this revaluation reserve was eliminated against other revenue reserves.

The difference between the income from the disposal of the subsidiary and prorated Group equity, including recognised translation differences, previously carried with no effect on result, differences from the revaluation reserve, the reserve for changes in the value of financial instruments as well as interim profits, was carried as a profit or loss in the consolidated profit and loss statement as at the disposal date. This principle did not apply to actuarial gains or losses carried in Group equity with no effect on results in the framework of the recognition of pension obligations in accordance with IAS 19. In the event of a disposal of subsidiaries, the goodwill attributable to these subsidiaries was included in the determination of the gain or loss on disposal.

The Group's major associated companies and joint ventures were measured at equity and shown in the balance sheet at the cost of acquisition as at the acquisition date. The group's share in associated companies and joint ventures included the goodwill arising in each acquisition transaction.

The Group's share in profits and losses of associated companies and joint ventures was carried in the profit and loss statement as from the date of acquisition (Result from companies measured at equity), while the Group's share in changes in reserves was shown in its revenue reserves. Accumulated changes arising after the acquisition were eliminated against the carrying amount of the participation. Where the share in the loss of an associated company or joint venture equalled or exceeded the Group's share in this company, including other unhedged receivables, no further losses were recognised as a matter of principle. Any losses exceeding that share were only recognised where obligations had been assumed or payments had been made for the associated company or joint venture.

Intra-group receivables and liabilities or provisions were eliminated. Where the conditions for a consolidation of third-party liabilities were met, this consolidation method was applied. Interim profits from transactions between subsidiaries and companies measured at equity were eliminated in relation to the Group's share in the companies. Any interim losses were also eliminated unless the transaction entailed indications of a potential impairment of the transferred asset. Where the accounting and measurement methods applied by associated companies and joint ventures differed from the uniform accounting rules applied in the Group, amendments were made unless the relevant facts were sufficiently known or accessible.

Intercompany turnover and other income from intercompany transactions as well as the corresponding expenses were eliminated. Intercompany profits and losses from intra-group deliveries or services were eliminated with an effect on results, with deferred income taxes taken into account. However, intercompany losses were understood as suggesting that an impairment test had to be effected for the transferred assets. Intra-group deliveries and services were usually provided at the arm's length principle. Intercompany profits from deliveries to and from companies measured at equity were eliminated on the basis of the same principles when the corresponding facts were known.

Accounting and measurement

The financial statements of the subsidiaries included in the TUI Group were prepared in accordance with uniform accounting and measurement principles. The amounts stated in the consolidated financial statements were not determined by tax regulations but solely by the economic presentation of the net worth and financial position as set out in the rules of the IASB.

Realisation of income

Turnover comprised the fair value of the consideration received or to be received for the sale of products and services in the framework of ordinary business activities. Turnover was carried excluding value-added tax, returns, discounts and price rebates and after elimination of intra-Group sales.

As a matter of principle, turnover and other operating income was carried upon rendering of the service or delivery of the assets and hence by transfer of the risk.

The commission fees charged by travel agencies for package tours were recognised upon payment by the customers or, at the latest, upon their departure. The services of tour operators mainly consisted in the organisation and coordination of package tours. Turnover from the organisation of package tours was therefore fully recognised upon the start of the tour. Turnover from individual travel modules booked directly from airlines, hotel companies or incoming agencies by customers was recognised when the customers had used the respective services.

Income from non-completed shipping tours was recognised according to the proportion of contract performance at the balance sheet date. In container shipping, the percentage of completion was determined in accordance with the relationship between the expenses already incurred and the expected overall expense for the shipping tour. The realisation of income was based on the profit margins determined for the individual trade lanes and constantly reviewed. In the cruise sector, the percentage of completion was determined as the ratio between travel days completed by the balance sheet date and overall travel days.

Interest income and interest expenses not to be capitalised under IAS 23 were reported on an accrual basis according to the effective interest method. Dividends were reported when the legal claim had arisen.

Goodwill and other intangible assets

Acquired intangible assets were carried at cost. Self-generated intangible assets, primarily software for use by the Group itself, were capitalised at cost where an inflow of future economic benefits for the Group was probable and could be reliably measured. The cost of production comprised direct costs and directly allocable overheads. Intangible assets with a limited service life were amortised over the expected useful life. Concessions and industrial property rights and similar rights and values were amortised over a period of up to 20 years. Software amortisation usually covered a period of three years, in exceptional cases up to ten years.

Intangible assets with an indefinable useful life were not amortised but had to be tested for impairment at least annually. In addition, impairment tests had to be conducted if any triggering events suggested a potential impairment. The TUI Group's intangible assets with an useful life exclusively consisted of goodwill.

Impairment tests for goodwill were conducted on the basis of cash generating units. According to the IASB rules, cash-generating units are the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. Following the merger of TUI's tourism division (with the exception of the hotels managed by TUI Hotels & Resorts) with the activities of the First Choice Holidays Group to form TUI Travel PLC and the associated control and monitoring of the overall goodwill for TUI Travel PLC as a unit, TUI Travel PLC represented an independent cash generating unit in the tourism segment. Allocation within the TUI Hotels & Resorts sector was based on the different hotel groups. The container shipping segment was defined as one single cash generating unit.

Impairments were effected where the carrying amounts of the tested units plus the allocated goodwill exceeded the recoverable amount. The recoverable amount corresponded to the higher of fair value less costs to sell and the present value of future payment flows of the tested entity based on continued use within the company (value in use). The fair value less cost to sell corresponds to the amount that could be generated between knowledgeable, willing, independent business partners in an arm's length transaction after deduction of the cost to sell. Due to the restrictions applicable to the determination of the cash flows to derive the value in use, e.g. .the requirement not to account for earnings effects from investments in expansions or from restructuring activities for which no provision was formed according to IAS 37, the fair value less cost to sell usually exceeds the value in use and therefore represents the recoverable amount.

Since a fair value was not available in an active market for the entities to be tested, with the exception of TUI Travel PLC, it was determined by means of discounting the expected cash flows. This was based on the medium-term plan for the entity under review, prepared at the end of 2007, following deduction of income tax payments. The assumptions underlying the planning are outlined in the section 'Report on Expected Developments' in the management report. For the detailed planning period from 2008 to 2010, the weighted average cost of capital after income taxes which formed the discounting basis was 7.81% p. a. for the TUI Travel PLC sector, 7.42% p. a. for TUI Hotels & Resorts and 9.62% for the shipping division. Taking account of a growth markdown of 1.0% p. a., the corresponding figures were 6.81% p. a., 6.42% p. a. and 8.62% p. a., respectively, for the longer-term period. The fair values determined were tested against market multiples. The costs to sell to be taken into account were determined on the basis of empirical values related to past transactions.

Where the original causes for impairments charged in previous years no longer applied, the impairment was written back to Other income. In accordance with IAS 36, write-backs of goodwill were not admissible.

Property, plant and equipment

Property, plant and equipment were measured at amortised cost. The cost of purchase comprised all costs incurred to purchase an asset and bring it to working condition. The cost of production was determined on the basis of direct costs and appropriate allocations of overheads and depreciation.

Borrowing costs directly associated with the acquisition, construction or production of qualified assets were included in the cost of acquisition or cost of production until the assets are ready for their intended use or sale. Other borrowing costs were recognised as current expenses.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the underlying capitalisation rate was used to determine the borrowing cost; in all other cases the weighted average of the borrowing costs applicable to the borrowings outstanding during the period was applied.

Use-related depreciation and amortisation was based on the following useful lives:

Useful lives

	Useful lives
Hotel buildings	30 to 40 years
Other buildings	up to 50 years
Container ships	25 years
- Classification costs	depending on intervals, up to 5 years
Cruise ships	30 years
- Classification costs	depending on intervals, up to 2 years
Yachts and motorboats	15 or 24 years
Aircraft	
- Fuselages	18 years
- Engines	18 years
- Engine overhaul	depending on intervals, up to 5 years
- Major overhaul	depending on intervals, up to 5 years
- Spare parts	12 years
Containers and semi-trailers	up to 12 years
Other machinery and fixtures	up to 40 years
Operating and business equipment	up to 10 years

Moreover, the level of depreciation was determined by the residual amounts recoverable at the end of the useful life of an asset. While the residual value of a container ship was determined in particular on the basis of its scrap value, the residual value assumed for cruise ships and their hotel complexes amounted to 30% of the acquisition costs. The determination of the depreciation of aircraft fuselages, aircraft engines and spare parts in first-time recognition was based on a residual value of 20% of the cost of acquisition.

Both the useful lives and assumed residual values are reviewed on an annual basis in the framework of the preparation of the annual financial statements. The review of the residual values was based on comparable assets at the end of their useful lives as at the current point in time. Any adjustments required were effected as a correction of depreciation over the remaining useful life of the asset. The restatement of depreciation was effected retrospectively for the entire financial year in which the review took place. Where the review resulted in an increase of the residual value so that it exceeded the remaining net carrying amount of the asset, depreciation was suspended. In this case, the amounts were not written back.

Any losses in value expected to be permanent and going beyond wear-and-tear depreciation were taken into account by means of the recognition of impairment losses. If there were any triggering events suggesting a potential impairment, the carrying value of an asset was compared with the recoverable amount in the framework of the impairment test required in that case. The recoverable amount is the higher of an asset's fair value less costs to sell and the value of future cash flows attributable to the asset (value in use).

Investment grants received were shown as reductions in cost where these grants were directly attributable to individual property, plant or equipment items. Where a

direct allocation of grants was not possible, the grants and subsidies received were carried as deferred income under 'Other liabilities' and reversed in accordance with the useful life of the investment project.

Finance leases

In accordance with IAS 17, leased property, plant and equipment in which the TUI Group carried all essential risks and rewards incident to ownership of the assets were capitalised. The capitalisation was based on the fair value of the asset or the present value of the minimum lease payments, if lower. Depreciation was charged over the useful life or the lease term, if shorter, on the basis of the depreciation method applicable to comparable purchased or manufactured assets. The payment obligations arising from future lease payments were carried as liabilities, with no consideration of future interest expenses. Every lease payment was broken down into an interest portion and a redemption portion so that liability from the lease yielded constant interest. The interest portion was carried in the profit and loss statement with an effect on results.

Where companies of the TUI Group were lessors in finance leases, receivables equivalent to the net investment value were carried for the lease. The periodical distribution of the income from finance leases resulted in constant interest payments on the outstanding net investment volume of the leases over the course of time. Rental income from operating leases was recognised on a straight-line basis over the term of the corresponding contract.

Investment property

Property not occupied for use by Group companies and exclusively held to generate rental income and capital gains was recognised at amortised cost. This property was amortised over a period of up to 50 years.

Financial instruments

Financial instruments are contractual rights or obligations that will lead to an inflow or outflow of financial assets or the issue of equity rights. They also comprise derivative rights or obligations derived from primary financial instruments.

In accordance with IAS 39, financial instruments were broken down into financial assets or liabilities to be measured at fair value through profit and loss, loans and receivables, financial assets available for sale and financial assets held to maturity as well as other liabilities.

In terms of financial instruments measured at fair value through profit and loss, the TUI Group exclusively held derivative financial instruments mandatory classified as held for trading. The fair value option was not exercised. Moreover, the TUI Group held financial assets in the 'Loans and receivables' and the 'Available for sale' categories. However, it did not hold any assets held to maturity in the period under review.

No reclassifications were effected within the measurement categories in the 2007 financial year, nor in 2006.

Financial assets

Financial assets were recognised as at the trading date on which the Group committed to buy the asset. Financial assets were classified as loans and receivables or as financial assets held for sale when recognised for the first time. Loans and receivables as well as financial assets available for sale were initially recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or fixable payments not listed in an active market. They are shown under 'Trade account receivable and other receivables' in the balance sheet and classified as current receivables where they mature within twelve months after the balance sheet date.

In the framework of follow-up measurement, loans and receivables were measured at amortised cost based on the effective interest method. Value adjustments were made to account for identifiable individual risks. Where default of a certain portion of the receivables portfolio was probable, impairments were effected at an amount corresponding to the expected loss. Impairments and write-backs of impairments were carried under 'Cost of sales' or 'Administrative expenses', depending on the technical nature of the transaction.

Financial assets available for sale are non-derivative financial assets either individually expressly allocated to this category or not allocable to any other category of financial assets. In the TUI Group, they exclusively consisted of shares in companies and securities held. They had to be allocated to non-current assets unless the management intended to sell them within twelve months after the balance sheet date.

Financial assets available for sale were measured at their fair value after their initial measurement. Changes in fair values were carried in equity with no effect on results up to their disposal. A permanent reduction in fair value gave rise to impairments with an effect on results. In the event of subsequent reversal of the impairment, the impairment carried with an effect on results was not reversed for equity instruments but eliminated against equity with no effect on results. Where a listed market price in an active market was not available for shares held and other methods to determine an objectifiable market value were not applicable, the shares were measured at amortised cost.

A derecognition of assets was effected as at the date on which the rights for payments from the asset ceased or were transferred and therefore as at the date essentially all risks and rewards associated with ownership were transferred.

Derivative financial instruments and hedging

In the framework of initial measurement, derivative financial instruments were measured at the fair value attributable to them on the day of the conclusion of the agreement. The follow-up measurement was also effected at the fair value applicable at the respective balance sheet date. Where derivative financial instruments were not part of a hedge in connection with hedge accounting, they had to be classified obligatory as held for trading in accordance with IAS 39. The method used to carry profits and losses depended on whether the derivative financial instrument was classified as a hedge, and on the type of the underlying hedged item. As a matter of principle, the Group classifies derivative financial instruments either as fair value hedges to hedge against the risk of changes in the fair value of assets or liabilities or as cash flow hedges to hedge against the risks of fluctuating cash flows from highly probable future transactions.

Upon conclusion of the transaction, the Group documents the hedging relationship between the hedge and the underlying item, the risk management goal and the strategy pursued in entering into the hedges. In addition, an assessment is made and documented both at the beginning of the hedge relationship and on a continual basis as to whether the derivatives used for the hedge compensate for the

changes in the fair values or cash flows of the hedged item in a highly effective manner. Derivative financial instruments held for trading were carried as current assets or liabilities.

The changes in fair values of derivative financial instruments designated as a fair value hedge were carried in the profit and loss statement alongside the changes in the fair values of the hedged assets or liabilities. If the conditions for hedge accounting were no longer met and the previously designated hedged item was measured by means of the effective interest method, the necessary adjustment of the carrying amount of the hedged item had to be effected over its remaining term. The present annual financial statements of the TUI Group did not include any fair value hedges of assets and liabilities.

The effective part of changes in the fair value of cash flow hedges was recognised in equity. The ineffective part of such changes in the fair value, in contrast, was taken directly to the profit and loss statement according to the nature of the hedged item. Amounts taken to equity were reclassified to the profit and loss statement and carried as income or expenses in the period in which the hedged item had an effect on results.

If a hedge expired, was sold or no longer met the criteria for hedge accounting, the profit or loss previously accumulated in equity remained in equity and was only carried in the profit and loss statement with an effect on results when the originally hedged future transaction occurred. If the future transaction was no longer expected to occur, the cumulative profits or losses recognised in equity with no effect on results immediately had to be recognised with an effect on results.

Changes in the fair values of derivative financial instruments not meeting the criteria for hedge acocunting were directly carried in the profit and loss statement with an effect on results.

Inventories

Inventories were measured at the lower of cost or net realisable value. The net realisable value was the estimated selling price less the estimated cost incurred until the sale and the estimated cost to sell required. All inventories were written down individually where the net realisable value of inventories was lower than their carrying amounts. Where the original causes of inventory write-downs no longer applied, the write-downs were reversed. The measurement method applied to homogenous inventory items was the weighted average cost formula.

Cash and cash equivalents

Cash and cash equivalents comprised cash, sight deposits, other currently highly liquid financial assets with an original term of a maximum of three months and current accounts. Used credits in current accounts were shown as liabilities to banks under current financial liabilities.

Hybrid capital

In accordance with IAS 32, the bond terms of the hybrid capital issued as at the end of the 2005 financial year resulted in recognition as one of the Group's equity components. Accordingly, the tax-deductible interest payments were not shown under interest expenses but were treated in analogy to dividend obligations to the shareholders. The cost of equity raising was directly deducted from the hybrid capital, taking account of deferred income taxes.

Provisions

Provisions were formed where the Group had a current legal or constructive obligation resulting from a past event and where in addition it was probable that the payment of the obligation would impact assets and the level of the provision could be reliably determined. Provisions for restructuring measures comprised payments for the premature termination of rental agreements and severance payments to employees. No provisions were carried for future operating losses.

Where a large number of similar obligations existed – such as in the event of legal guarantees and warranties – the probability of a charge was determined on the basis of this group of obligations. A provision was also accrued if the probability of a charge was low in relation to an individual obligation contained in this group.

Provisions were measured at the present value of the expected expenses, taking account of a pre-tax interest rate reflecting current market expectations concerning the interest effect and the specific risks related to the obligation. Increases in provisions due to accrued interest were carried as interest expenses with an effect on results.

The pension provision recognised for defined benefit plans corresponded to the net present value of the defined benefit obligations (DBO) as at the balance sheet date less the fair value of the plan assets. Actuarial gains and losses arising from the regular adjustment of actuarial parameters were eliminated against equity when they occurred with no effect on results. The DBOs are calculated on an annual basis by independent actuarial experts on the basis of the projected unit credit method. The net present value of the DBO is calculated by discounting the expected future outflows of cash with the interest rate of high-quality corporate bonds.

Past service cost was immediately recognised with an effect on results if the changes in the pension plan did not depend on the employee remaining in the Company for a defined period of time (vested period). In this case, the past service cost was recognised with an effect on results on a straight line basis over the period until the commencement of the vested rights.

For defined contribution plans, the Group pays contributions to public or private pension insurance plans on the basis of a statutory or contractual obligation or on a voluntary basis. The Group does not have any further payment obligations on top of the payment of the contributions. The contributions were carried under personnel costs when they fell due.

Share-based payments

All share-based payment schemes in the Group were cash-settled or equity-settled payment schemes.

For cash-settled transactions, the resulting liability for the Group was charged to expenses at its fair value as at the date of the performance of the service by the beneficiary. Until payment of the liability, the fair value of the liability was remeasured at every reporting date and all changes in the fair value were carried with an effect on results.

In the tourism division, share-based payment schemes existed in the form of share option plans granted by TUI Travel PLC. Under these payment schemes, Board members and employees were entitled to buy shares in TUI Travel PLC. The fair value of the options granted was carried under 'Personnel costs' with a corresponding

direct increase in equity. The fair value was determined as at the date of the granting of the options and spread over the employees' vesting period.

The fair value of the options granted was determined on the basis of the terms and conditions related to the granting of the options; option price models were used in this context. The amount to be carried under personnel costs was adjusted such that it was based on the number of options that may be exercised finally, with the exception of options lapsing solely because the threshold values required for the exercise of such options were not reached due to market conditions.

For share-based payment schemes granted in the framework of a business combination to replace share-based payment schemes previously offered by the acquired company, the fair value of the equity instruments was determined as at the date of acquisition. This fair value was recognised as part of the cost of acquisition of the business combination at the amount representing services already performed before the establishment of the business combination, with the remainder of the fair value carried under personnel costs for the period from the business combination until the first strike day for the equity instruments. Costs are broken down into costs of acquisition and personnel costs in proportion to the relation between the vesting period before and after the acquisition date.

Liabilities

As a matter of principle, liabilities were carried at the date on which they arose at fair value after deduction of the cost of borrowing and the transaction costs. Over the course of time, liabilities were measured at amortised cost based on application of the effective interest method.

When issuing bonds comprising both a debt component but also a second component in the form of conversion options or warrants, the funds obtained for the respective components were recognised in accordance with their character. At the issuing date, the debt component was carried as a bond at a value that would have been generated for the issue of this outside capital instrument without corresponding conversion options or warrants on the basis of current market terms. If the conversion options or warrants had to be classified as equity instruments, the difference over the issuing proceeds generated was transferred to the capital reserve with deferred taxes taken into account. With effect from 3 April 2006, TUI AG irrevocably waived its unilateral option of paying cash in the event of an exercise of the conversion options from the convertible bond issued in October 2003. The conversion options have therefore been treated as equity instruments since the waiver date.

As a matter of principle, the currency differences resulting from the translation of trade accounts payable were reported as a correction of the cost of sales. Currency differences from the translation of liabilities not resulting from normal performance processes were carried under Other income/other expenses or Administrative expenses, depending on the nature of the underlying liability.

Deferred taxes

In accordance with IAS 12, deferred taxes were determined on the basis of the liability method. Accordingly, all temporary differences between the carrying amounts of assets and liabilities shown in the consolidated financial statements and the tax base of such assets or liabilities, probable future tax reliefs and charges were recognised.

Expected tax savings from the use of loss carryforwards assessed as recoverable in the future were capitalised. Although there was no time limit for German loss carry-forwards, as before, the annual use of such carryforwards was restricted by means of minimum taxation. Foreign loss carryforwards frequently had to be used within a specific country-specific time limit and were subject to restrictions concerning the use of these loss carryforwards for profits on ordinary activities, which were taken into account accordingly in the measurement. Deferred taxes were impaired or credited directly by the equity if the tax refer to items which were impaired or credited directly by the equity in the same or another period.

Deferred tax receivables were applied in the admeasurement in which it is possible that a further taxable result is available which can be used against a temporary difference or a not-used tax loss.

Deferred taxes were measured at the tax rates and regulations that were applicable at the balance sheet date or that had essentially been legally adopted and were expected to be applicable at the date of realisation of the deferred tax asset or the payment of the deferred tax liability. In connection with the corporate tax reform 2008, deferred tax items of German companies were measured at a tax rate of 31.0% (previous year: 40.0%) taking into consideration the effective tax rates since the assessment or enquiry period 2008.

Current income taxes

As in 2006, the German companies of the TUI Group with financial year ending on 31 December had to pay an average trade income tax of approx. 18% on trade earnings in the overall financial year 2007, which was deductible in the computation of corporation tax. The corporation tax rate was 25%, as in 2006, plus a 5.5% unvaried solidarity surcharge on corporation tax.

Due to the 2008 corporate tax reform act introduced in Germany, however, German TUI Group companies that changed their financial year-end in 2007 had to pay average corporation tax of 31.0 % as of the date of the change for a financial year ending in 2008.

The calculation of foreign income taxes was based on the laws and provisions applicable in the individual countries. The income tax rates applied to foreign companies varied from 10.0% to 42.1%.

Income tax provisions were offset against the corresponding tax refund claims where they existed in the same fiscal territory and had the same nature and maturity.

Essential estimates and assumptions

All estimates and judgments were constantly revalued and were based on past experience and other factors, including expectations concerning future events.

Goodwill was tested for impairment as at the balance sheet date. Details concerning the implementation of goodwill impairment tests are presented in the section 'Goodwill and other intangible assets' in the chapter 'Accounting and measurement methods'.

The determination of the present value of pension obligations largely depended on the selection of the discount rate, newly determined at the end of any one year. The discount rate used was the interest rate of high-quality corporate bonds denominated in the currency in which the benefits will be paid, and having terms to

maturity corresponding to terms of the related pension liabilities. Detailed information is provided in the explanations on recognised pension provisions in note 31.

The Group was liable to pay income taxes in various countries. Essential assumptions were required to determine the income tax provision. For certain transactions and calculations the ultimate tax charge was impossible to determine during the ordinary course of business. The level of the provisions for expected tax audits was based on estimates as to whether and to what extent additional income taxes would be due. Estimates made were corrected, if necessary, in the period in which the final tax charge was determined.

Other essential assumptions and estimates related to the determination of useful lives and residual values of property, plant and equipment. The useful lives and residual values determined were reviewed at least on an annual basis. Details concerning useful lives and residual values of property, plant and equipment items are provided in the section 'Property, plant and equipment' in the chapter 'Accounting and measurement methods'.

In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired were measured at their fair values. In this context, cash flow-based methods were regularly used. Depending on the assumptions underlying such methods, different results may be produced. In particular, the assessment of the useful lives of intangible assets and the determination of the fair values of contingent liabilities entailed an element of uncertainty since they were based on assumptions.

Segment reporting

Notes on the segments

In primary segment reporting, the individual organisational entities of the TUI Group were attributed to the business segments, with tourism and shipping representing the Group's core businesses. Following the sale of Wolf GmbH in 2006, the segment 'Other operating sectors' exclusively comprised the Group's real estate companies. Group segmentation was based on internal corporate control. The individual organisational entities were allocated to the divisions and sectors based on economic criteria alone, irrespective of their participation structure under company law.

Due to the merger between TUI's tourism division (with the exception of TUI Hotels & Resorts) and the British travel group First Choice Holidays PLC to form TUI Travel PLC and the associated realignment of operative management of the Company in the 2007 financial year, segment reporting was also adjusted accordingly. The tourism division now consists of the TUI Travel PLC sector and the TUI Hotels & Resorts sector, comprising all hotel companies of the Group and not included in the merger. Since it was managed by Hapag-Lloyd AG, Hapag-Lloyd Kreuzfahrten continued to be carried in the shipping division rather than being reported in the tourism division. In the 2006 financial year, the 'Other tourism' sector mainly comprised the business travel activities, only included on a prorated basis due to the divestment, and the TUI InfoTec Group until the disposal date in 2006.

The shipping division comprised both container shipping and cruise activities. In the container shipping sector, Hapag-Lloyd Container Linie did not only offer pure container shipping operations but in particular also door-to-door container trans-

port services. Using subcontractors, they thus offered services at all stages of the transport chain.

In exercising its cross-divisional management tasks, TUI AG acquired in particular legal ownership of the maritime assets (container ships, containers and semi-trailers), leased to the Group's shipping companies in the framework of operating leases. For the purposes of segment reporting, the maritime assets were allocated to the operative companies so that these assets were presented as assets of the shipping segment. Corresponding expenses and income were also allocated to the segments.

The remaining activities of TUI AG and other holding companies not directly allocable to other segments were shown as non-allocable business activities (holdings).

In the financial year under review, the Group did not hold any discontinuing operations. For the 2006 financial year, the US steel service companies sold in May 2006 and the lagging income from the special logistics operations sold in the 2005 financial year were shown.

In secondary segment reporting, the Group's business activities were broken down according to geographical criteria.

Notes on the segment data

As a rule, inter-segment turnover was generated in line with the arm's length principle as applied in transactions with third parties.

The operating segment assets and liabilities comprised the assets or liabilities, excluding financial assets, financial liabilities and pension provisions as well as income taxes. Goodwill was also shown as segment assets. Investments were additions of property, plant and equipment as well as intangible assets. Depreciation was related to segment assets and also included goodwill impairments.

Depreciation was not taken into account in the determination of non-cash expenses.

Earnings from the disposal of subsidiaries were allocated to the individual segment earnings. The realisation of differences from currency translation in connection with capital reductions with an effect on results was allocated to the holding activities and therefore included in segment reporting by the holding companies.

Financial assets as well as cash and cash equivalents were used to generate the financial result. Financial liabilities including pension provisions were carried as interest-bearing debt and were used to finance the operating and investing activities. The reconciliation of segment assets and liabilities to the Group's assets or liabilities resulted from the consideration of the income tax assets or income tax provisions and liabilities not taken into account in accordance with IAS 14.

Segment reporting disclosed earnings ratios such as EBT, EBTA, EBIT, underlying EBITA, EBITDA and EBITDAR since these ratios were used as the control basis for value-oriented corporate management. In determining the earnings ratios of the discontinuing operations, the 'Result from discontinuing operations' was reallocated to the original types of income and expenses.

Key Figures by Divisions and Sectors

€ million	2007	Tourism 2006 restated	2007	Shipping 2006 restated
Statements of results				
Third-party turnover	15,638.5	14,085.1	6,201.6	6,254.0
Inter-segment turnover	26.0	36.6	2.8	5.1
Segment turnover	**15,664.5**	**14,121.7**	**6,204.4**	**6,259.1**
Group profit/loss for the year				
Income taxes				
Earnings before taxes (EBT)	**89.4**	**- 342.6**	**252.6**	**- 174.6**
Net interest result and result from the measurement of interest hedges	- 67.4	- 17.7	- 89.3	- 68.2
Earnings before interest and taxes (EBIT)	**156.8**	**- 324.9**	**341.9**	**- 106.4**
of which at equity result	(39.0)	(43.0)	(25.7)	(7.5)
Impairment of goodwill	53.7	709.5	–	–
Impairment of companies measured at equity	–	3.3	–	–
Earnings before interest, taxes and amortisation of goodwill (EBITA)	**210.5**	**387.9**	**341.9**	**- 106.4**
Adjustments	238.4	6.8	- 145.2	195.6
Underlying EBITA	**448.9**	**394.7**	**196.7**	**89.2**
Amortisation of other intangible assets and depreciation of property, plant and equipment	459.4	381.9	280.1	317.7
of which impairments	(43.9)	(31.3)	(1.9)	(15.6)
Other depreciation/amortisation and write-backs	- 14.0	- 3.0	0.2	–
of which write-backs	(3.7)	(0.4)	(–)	(–)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**683.9**	**772.8**	**621.8**	**211.3**
Rental expenses	648.2	572.7	567.6	593.5
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	**1,332.1**	**1,345.5**	**1,189.4**	**804.8**
Assets and liabilities				
Segment assets	11,507.8	7,190.0	4,025.1	3,673.5
of which goodwill	(2,957.7)	(3,027.5)	(100.6)	(107.3)
Carrying amounts of companies measured at equity	469.1	388.8	71.6	18.9
Financial assets	1.657.1	1.509.3	472.3	195.5
Non-allocatable taxes				
Total assets				
Segment liabilities	4,795.6	3,322.5	1,150.1	1,101.9
Interest-bearing liabilities	3,810.8	2,077.2	2,150.8	1,773.4
Non-allocatable taxes				
Total liabilities and provisions				
Additional disclosures				
Non-cash expenses	21.1	2.8	–	0.3
Return on sales (% on EBITA)	1.3	2.7	5.5	- 1.7
Investments	531.1	547.7	572.2	192.4
Investments in goodwill	36.5	8.9	–	0.2
Investments in other intangible assets and property, plant and equipment	494.6	538.8	572.2	192.2
Financing ratio (%)	96.6	199.3	49.0	165.1
Personnel at year-end	59,832	44,409	8,243	8,571

*) Non-allocatable to segments

Other operating units		Holdings*)		Consolidation		Continuing operations	
2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006** restated
25.5	175.4	–	0.1	–	–	21,865.6	20,514.6
10.5	10.1	2.8	5.6	- 42.1	- 57.4	–	–
36.0	**185.5**	**2.8**	**5.7**	**- 42.1**	**- 57.4**	**21,865.6**	**20,514.6**
						236.3	**- 860.5**
						0.8	129.4
18.1	**93.3**	**297.0**	**- 208.8**	**- 420.0**	**- 98.4**	**237.1**	**- 731.1**
5.7	- 1.7	- 106.1	- 129.3	- 0.3	- 2.2	- 257.4	- 219.1
12.4	**95.0**	**403.1**	**- 79.5**	**- 419.7**	**- 96.2**	**494.5**	**- 512.0**
(–)	(–)	(–)	(–)	(–)	(–)	(64.7)	(50.5)
–	–	–	–	–	–	53.7	709.5
–	–	–	–	–	–	–	3.3
12.4	**95.0**	**403.1**	**- 79.5**	**- 419.7**	**- 96.2**	**548.2**	**200.8**
–	- 34.7	- 25.3	50.0	–	–	67.9	217.7
12.4	**60.3**	**377.8**	**- 29.5**	**- 419.7**	**- 96.2**	**616.1**	**418.5**
9.7	9.4	5.9	13.8	- 1.7	- 0.7	753.4	722.1
(6.0)	(0.5)	(1.1)	(6.9)	(0.1)	(–)	(53.0)	(54.3)
–	–	- 110.8	- 49.4	103.5	37.9	- 21.1	- 14.5
(–)	(–)	(–)	(–)	(0.7)	(–)	(4.4)	(0.4)
22.1	**104.4**	**519.8**	**- 16.3**	**- 524.9**	**- 134.8**	**1,322.7**	**937.4**
2.3	2.6	3.2	1.3	- 9.7	- 14.0	1,211.6	1,156.1
24.4	**107.0**	**523.0**	**- 15.0**	**- 534.6**	**- 148.8**	**2,534.3**	**2,093.5**
143.7	147.1	220.4	143.7	- 2,500.5	- 54.4	13,396.5	11,099.9
(–)	(–)	(–)	(–)	(–)	(–)	(3,058.3)	(3,134.8)
–	–	–	–	–	–	540.7	407.7
290.0	262.0	8,054.7	9.133.1	- 8,341.5	- 9,876.1	2,132.6	1,223.8
34.8	53.7	352.5	276.5	- 120.7	- 45.2	6,212.3	4,709.4
250.1	100.3	2,939.5	4,467.4	-2,754.1	-3,433.6	6,397.1	4,984.7
–	–	2.6	66.6	–	–	23.7	69.7
34.4	51.2	–	–	–	–	2.5	1.0
9.0	13.5	4.0	1.3	–	–	1,116.3	754.9
–	–	–	–	–	–	36.5	9.1
9.0	13.5	4.0	1.3	–	–	1,079.8	745.8
107.8	69.6	147.5	1,061.5	–	–	72.3	189.6
75	82	371	868	–	–	68,521	53,930

Key Figures by Divisions and Sectors

€ million	Continuing operations 2007	2006 restated	Discontinuing operations*) 2007	2006
Statements of results				
Third-party turnover	21,865.6	20,514.6	–	401.0
Inter-segment turnover	0.0	0.0	–	–
Segment turnover	**21,865.6**	**20,514.6**	**–**	**401.0**
Group profit/loss for the year	**236.3**	**- 860.5**	**–**	**17.1**
Income taxes	0.8	129.4	–	11.5
Earnings before taxes (EBT)	**237.1**	**- 731.1**	**–**	**28.6***
Net interest result and result from the measurement of interest hedges	- 257.4	- 219.1	–	- 1.0
Earnings before interest and taxes (EBIT)	**494.5**	**- 512.0**	**–**	**29.6***
of which at equity result	(64.7)	(50.5)	–	–
Impairment of goodwill	53.7	709.5	–	–
Impairment of companies measured at equity	–	3.3	–	–
Earnings before interest, taxes and amortisation of goodwill (EBITA)	**548.2**	**200.8**	**–**	**29.6***
Adjustments	67.9	217.7	–	0.2
Underlying EBITA	**616.1**	**418.5**	**–**	**29.8**
Amortisation of other intangible assets and depreciation of property, plant and equipment	753.4	722.1	–	–
of which impairments	(53.0)	(54.3)	–	–
Other depreciation/amortisation and write-backs	- 21.1	- 14.5	–	–
of which write-backs	(4.4)	(0.4)	–	–
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1,322.7**	**937.4**	**–**	**29.6***
Rental expenses	1,211.6	1,156.1	–	1.1
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	**2,534.3**	**2,093.5**	**–**	**30.7***
Assets and liabilities				
Segment assets	13,396.5	11,099.9	–	–
of which goodwill	(3,058.3)	(3,134.8)	–	–
Carrying amounts of companies measured at equity	540.7	407.7	–	–
Financial assets	2,132.6	1,223.8	–	–
Non-allocatable taxes				
Total assets				
Segment liabilities	6,212.3	4,709.4	–	–
Interest-bearing liabilities	6,397.1	4,984.7	–	–
Non-allocatable taxes				
Total liabilities and provisions			**–**	**–**
Additional disclosures				
Non-cash expenses	23.7	69.7	–	–
Return on sales (% on EBITA)	2.5	1.0	–	–
Investments	1,116.3	754.9	–	2.0
Investments in goodwill	36.5	9.1	–	–
Investments in other intangible assets and property, plant and equipment	1,079.8	745.8	–	2.0
Financing ratio (%)	72.3	189.6	–	–
Personnel at year-end	68,521	53,930	–	–

*) The discontinuing operations comprise subsequent earnings from the disposal of the Energy division of € 5.4 million as well as one-off earnings of € 1.8 million of the Destinations sector.

Key Figures by Divisions and Sectors

€ million	Consolidation 2007	2006	Group 2007	2006 restated
Statements of results				
Third-party turnover	–	–	21,865.6	20,915.6
Inter-segment turnover	–	–	0.0	0.0
Segment turnover	**–**	**–**	**21,865.6**	**20,915.6**
Group profit/loss for the year	**–**		**236.3**	**- 843.4**
Income taxes	–		0.8	140.9
Earnings before taxes (EBT)	**–**	**–**	**237.1**	**- 702.5**
Net interest result and result from the measurement of interest hedges	–	–	- 257.4	- 220.1
Earnings before interest and taxes (EBIT)	**–**	**–**	**494.5**	**- 482.4**
of which at equity result	–	–	(64.7)	(50.5)
Impairment of goodwill	–	–	53.7	709.5
Impairment of companies measured at equity	–	–	0.0	3.3
Earnings before interest, taxes and amortisation of goodwill (EBITA)	**–**	**–**	**548.2**	**230.4**
Adjustments	–	–	67.9	217.9
Underlying EBITA	**–**	**–**	**616.1**	**448.3**
Amortisation of other intangible assets and depreciation of property, plant and equipment	–	–	753.4	722.1
of which impairments	–	–	(53.0)	(54.3)
Other depreciation/amortisation and write-backs	–	–	- 21.1	- 14.5
of which write-backs	–	–	(4.4)	(0.4)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**–**	**–**	**1,322.7**	**967.0**
Rental expenses	–	–	1,211.6	1,157.2
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	**–**	**–**	**2,534.3**	**2,124.2**
Assets and liabilities				
Segment assets	–	–	13,396.5	11,099.9
of which goodwill	–	–	(3,058.3)	(3,134.8)
Carrying amounts of companies measured at equity	–	–	540.7	407.7
Financial assets	–	–	2,132.6	1,223.8
Non-allocatable taxes			234.4	299.0
Total assets			**16,304.2**	**13,030.4**
Segment liabilities	–	–	6,212.3	4,709.4
Interest-bearing liabilities	–	–	6,397.1	4,984.7
Non-allocatable taxes			570.6	328.9
Total liabilities and provisions	**–**	**–**	**13,180.0**	**10,023.0**
Additional disclosures				
Non-cash expenses	–	–	23.7	69.7
Return on sales (% on EBITA)	–	–	2.5	1.1
Investments	–	–	1,116.3	756.9
Investments in goodwill	–	–	36.5	9.1
Investments in other intangible assets and property, plant and equipment	–	–	1,079.8	747.8
Financing ratio (%)	–	–	72.3	189.1
Personnel at year-end	–	–	68,521	53,930

Key Figures Tourism Division

€ million	TUI Travel PLC 2007	2006 restated	TUI Hotels & Resorts 2007	2006 restated
Statements of results				
Third-party turnover	15,258.7	13,676.0	379.8	346.7
Inter-segment turnover	27.6	38.1	444.4	412.9
Segment turnover	**15,286.3**	**13,714.1**	**824.2**	**759.6**
Group profit/loss for the year				
Income taxes				
Earnings before taxes (EBT)	**27.3**	**- 535.5**	**63.7**	**43.4**
Net interest result and result from the measurement of interest hedges	- 42.3	3.9	- 25.1	- 20.4
Earnings before interest and taxes (EBIT)	**69.6**	**- 539.4**	**88.8**	**63.8**
of which at equity result	(9.4)	(10.8)	(29.6)	(32.2)
Impairment of goodwill	33.7	690.0	20.0	19.5
Impairment of companies measured at equity	–	–	–	3.3
Earnings before interest, taxes and amortisation of goodwill (EBITA)	**103.3**	**150.6**	**108.8**	**86.6**
Adjustments	201.1	108.0	37.3	36.6
Underlying EBITA	**304.4**	**258.6**	**146.1**	**123.2**
Amortisation of other intangible assets and depreciation of property, plant and equipment	348.1	278.5	111.3	103.4
of which impairments	(4.5)	(0.9)	(39.4)	(30.4)
Other depreciation/amortisation and write-backs	- 12.5	- 1.2	- 1.5	- 3.2
of which write-backs	(2.6)	(0.0)	(1.1)	(0.4)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**463.9**	**430.3**	**221.6**	**193.2**
Rental expenses	570.3	493.7	77.9	75.2
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	**1,034.2**	**924.0**	**299.5**	**268.4**
Assets and liabilities				
Segment assets	9,708.1	5,537.1	1,830.7	1,682.9
of which goodwill	(2,522.3)	(2,633.5)	(435.4)	(394.0)
Carrying amounts of companies measured at equity	156.7	97.6	312.4	291.2
Financial assets	1,566.7	1,588.8	92.1	124.4
Non-allocatable taxes				
Total assets				
Segment liabilities	4,722.4	3,246.3	106.0	109.6
Interest-bearing liabilities	2,893.7	1,452.0	917.1	701.5
Non-allocatable taxes				
Total liabilities and provisions				
Additional disclosures				
Non-cash expenses	9.2	1.0	11.9	1.8
Return on sales (% on EBITA)	0.7	1.1	13.2	11.4
Investments	220.9	361.8	310.2	185.9
Investments in goodwill	2.5	8.9	34.0	0.0
Investments in other intangible assets and property, plant and equipment	218.4	352.9	276.2	185.9
Financing ratio (%)	172.8	267.7	42.3	66.1
Personnel at year-end	47,705	33,696	12,127	10,713

Key Figures Tourism Division

€ million	Other tourism/Consolidation 2007	2006 restated	Tourism division 2007	2006 restated
Statements of results				
Third-party turnover	–	62.4	15,638.5	14,085.1
Inter-segment turnover	- 446.0	- 414.4	26.0	36.6
Segment turnover	**- 446.0**	**- 352.0**	**15,664.5**	**14,121.7**
Group profit				
Income taxes				
Earnings before taxes (EBT)	**- 1.6**	**149.5**	**89.4**	**- 342.6**
Net interest result and result from the measurement of interest hedges	0.0	- 1.2	- 67.4	- 17.7
Earnings before interest and taxes (EBIT)	**- 1.6**	**150.7**	**156.8**	**- 324.9**
of which at equity result	(–)	(–)	(39.0)	(43.0)
Impairment of goodwill	–	–	53.7	709.5
Impairment of companies measured at equity	–	–	–	3.3
Earnings before interest, taxes and amortisation of goodwill (EBITA)	**- 1.6**	**150.7**	**210.5**	**387.9**
Adjustments	–	- 137.8	238.4	6.8
Underlying EBITA	**- 1.6**	**12.9**	**448.9**	**394.7**
Amortisation of other intangible assets and depreciation of property, plant and equipment	–	–	459.4	381.9
of which impairments	(–)	(–)	(43.9)	31.3
Other depreciation/amortisation and write-backs	–	1.4	- 14.0	- 3.0
of which write-backs	(–)	(–)	(3.7)	(0.4)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**- 1.6**	**149.3**	**683.9**	**772.8**
Rental expenses		3.8	648.2	572.7
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	**- 1.6**	**153.1**	**1,332.1**	**1,345.5**
Assets and liabilities				
Segment assets	- 31.0	- 30.0	11,507.8	7,190.0
of which goodwill	(–)	(–)	(2,957.7)	3,027.5
Carrying amounts of companies measured at equity	–	–	469.1	388.8
Financial assets	- 1.7	- 203.9	1,657.1	1,509.3
Non-allocatable taxes				
Total assets				
Segment liabilities	- 32.8	- 33.4	4,795.6	3,322.5
Interest-bearing liabilities	–	- 76.3	3,810.8	2,077.2
Non-allocatable taxes				
Total liabilities and provisions				
Additional disclosures				
Non-cash expenses	–	–	21.1	2.8
Return on sales (% on EBITA)	–	–	1.3	2.7
Investments	–	–	531.1	547.7
Investments in goodwill	–	–	36.5	8.9
Investments in other intangible assets and property, plant and equipment	–	–	494.6	538.8
Financing ratio (%)	–	–	96.6	199.3
Personnel at year-end	–	–	59,832	44,409.0

Key Figures by Regions

€ million	Germany 2007	Germany 2006 restated	EU (excl. Germany) 2007	EU (excl. Germany) 2006 restated	Rest of Europe 2007	Rest of Europe 2006
Consolidated turnover by customers	**5,629.2**	**5,428.4**	**11,191.1**	**10,577.2**	**758.8**	**710.1**
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Consolidated turnover by domicile of companies	**11,373.2**	**9,782.5**	**9,465.4**	**9,175.8**	**521.0**	**460.3**
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Segment assets	**4,702.8**	**4,269.5**	**8,819.1**	**5,248.6**	**94.8**	**120.8**
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-allocatable taxes						
Segment liabilities	**2,143.0**	**2,099.3**	**3,411.9**	**2,375.9**	**76.9**	**52.8**
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-allocatable taxes						
Additional disclosures						
Depreciation/amortisation	275.2	262.0	368.2	1,022.4	5.0	8.7
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)
Investments	600.9	329.8	303.1	276.9	3.3	12.5
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)
Investments in goodwill	2.2	0.8	31.5	8.1	0.2	0.0
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)
Investments in other tangible assets and property, plant and equipment	598.7	329.0	271.6	268.8	3.1	12.5
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)
Personnel at year-end	11,118	11,112	40,945	32,094	3,155	3,067
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)

€ million	North and South America 2007	North and South America 2006	Other Regions 2007	Other Regions 2006	Consolidation 2007	Consolidation 2006	Group 2007	Group 2006 restated
Consolidated turnover by customers	**2,682.6**	**2,722.1**	**1,603.9**	**1,477.8**	**0.0**	**0.0**	**21,865.6**	**20,915.6**
of which discontinuing operations	(0.0)	(401.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(401.0)
Consolidated turnover by domicile of companies	**370.5**	**1,431.4**	**135.5**	**65.6**	**0.0**	**0.0**	**21,865.6**	**20,915.6**
of which discontinuing operations	(0.0)	(401.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(401.0)
Segment assets	**1,528.7**	**1,425.6**	**222.9**	**454.7**	**- 1,971.8**	**- 419.3**	**13,396.5**	**11,099.9**
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-allocatable taxes							234.4	299.0
Segment liabilities	**478.9**	**459.0**	**254.7**	**157.1**	**- 153.1**	**- 434.7**	**6,212.3**	**4,709.4**
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-allocatable taxes							570.6	328.9
Additional disclosures								
Depreciation/amortisation	92.9	81.8	65.8	57.1	0.0	- 0.5	807.1	1,431.6
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Investments	195.8	92.1	13.2	45.6	0.0	0.0	1,116.3	756.9
of which discontinuing operations	(–)	(2.0)	(–)	(–)	(–)	(–)	(0.0)	(2.0)
Investments in goodwill	0.0	0.2	2.6	0.0	0.0	0.0	36.5	9.1
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Investments in other tangible assets and property, plant and equipment	195.8	91.9	10.6	45.6	0.0	0.0	1,079.8	747.8
of which discontinuing operations	(–)	(2.0)	(–)	(–)	(–)	(–)	(–)	(2.0)
Personnel at year-end	7,215	4,149	6,088	3,508	0.0	0.0	68,521	53,930
of which discontinuing operations	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)

Notes on the Consolidated Profit and Loss Statement

Since the beginning of the 2007 financial year, TUI AG has exercised the alternative treatment option available under IAS 1 to structure the consolidated profit and loss statement according to the cost of sales format. The previous year's figures were restated accordingly.

(1) Turnover

Group turnover by business activity

€ million	2007	2006
Tourism services	15,681.4	14,147.3
Transport services	6,018.4	6,093.7
Trading in merchandise	33.9	25.4
Letting and leasing	29.0	34.9
Production of goods and other turnover	102.9	213.3
Total	**21,865.6**	**20,514.6**

The year-on-year development of turnover by the Group's continuing operations was mainly characterised by changes in the group of consolidated companies. The First Choice Holidays Group contributed € 1,342.5 million to the Group turnover for the four months since first-time consolidation. Turnover by the shipping division declined slightly against the previous year's level especially due to the weak US dollar and despite increased transport volumes.

The decline in turnover from the production of goods and other turnover primarily resulted from the disposal of Wolf GmbH in the 2006 financial year. In 2006, this company had contributed € 154.1 million to turnover. The decline was partly offset by an increase in 'Other turnover'. 'Other turnover' included costs of brochures and advertising materials rebilled to hotels and travel agencies, costs incurred for TUI's company health scheme (BKK), operating income from secondary operations such as e.g. income from aircraft leases.

The cost of sales and administrative expenses comprise:

(2) Cost of sales and administrative expenses

Lease, rental and leasing expenses

€ million	2007	2006
Lease, rental and leasing expenses of long-term agreements	1,211.6	1,156.1
Lease, rental and leasing expenses of short-term agreements	325.6	525.6
Total	**1,537.2**	**1,681.7**

Where rental and lease expenses for operating leases were directly related to the turnover generated, these expenses were shown under the cost of sales. However, where rental and lease expenses were incurred for administrative buildings, they were shown under administrative expenses. The reduction in overall rental and lease expenses was primarily caused by container shipping, these costs for short-term and long-term contracts declined in particular due to the integration of the CP Ships Group

in Hapag-Lloyd and the weakness of the US dollar. TUI Travel PLC reported an overall increase in these costs which was largely attributable to the newly added long-term lease obligations for aircraft in First Choice Airways.

Personnel costs

€ million	2007	2006
Wages and salaries	1,898.6	1,968.4
Social security contributions, pension costs and benefits	446.5	467.0
Total	**2,345.1**	**2,435.4**

Pension costs included expenses for defined benefit pension obligations. The interest portion from the valuation of pension obligations was shown under financial expenses due to its financing character. The expected income from the related fund assets was shown under financial income. A detailed presentation of the pension obligations is provided in note 31.

Total personnel costs declined by € 90.3 million year-on-year. This was due to opposite development caused by changes in the group of consolidated companies and the restructuring measures implemented. The first-time consolidation of the First Choice Holidays Group led to an increase in personnel costs, which was partly offset by the disposal of the TUI InfoTec Group and the TQ3 Group. Further reductions were caused by the integration of CP Ships in the shipping division and further restructuring measures in the TUI Northern Europe sector.

Disregarding the discontinuing operations included in 2006 figures, the average headcount rose by 2,525 employees to 62,731 employees (excluding apprentices). In the shipping division, the average headcount declined slightly from 8,545 to 8,241 in the 2007 financial year. The tourism division recorded an increase in its average headcount from 49,499 to 53,733, primarily due to the first-time of the First Choice Holidays Group consolidation.

Average annual headcount (excl. apprentices)

	2007	2006
Wage earners	1,137	1,454
Salaried employees	61,594	58,752
Total	**62,731**	**60,206**

Amortisation of intangible assets and depreciation of property, plant and equipment and impairment

Depreciation and amortisation included the amortisation of other intangible assets, depreciation of property, plant and equipment as well as write-downs of investment property. The uniform useful lives underlying depreciation and amortisation and the principles for impairment are outlined in the 'Notes on the Principles and Methods'.

Depreciation/amortisation/impairments

€ million	2007	2006 restated
Depreciation and amortisation	700.4	667.8
Impairment of other intangible assets, property, plant and equipment and investment property	53.0	54.3
Total	**753.4**	**722.1**

Depreciation and amortisation rose by € 32.6 million to € 700.4 million year-on-year. This increase was primarily attributable to the first–time consolidation of the First Choice Holidays Group and was partly offset by declines in the shipping division.

In the financial year under review, impairments of other intangible assets, property, plant and equipment and investment property totalling € 53.0 million had to be effected, including an amount of € 37.3 million for hotel buildings. This amount essentially related to three Turkish hotel complexes which had to be impaired due to declines in booking volumes. On top of that, an impairment of € 5.9 million was required for a vacant office building, and a further amount of € 3.5 million was necessary for a defective aircraft engine. In 2006, impairments of € 54.3 million had to be effected for property, plant and equipment, primarily in the tourism division.

(3) Other income/ Other expenses

Other income/other expenses

€ million	2007	2006 restated
Other income	352.7	341.9
Other expenses	16.7	118.8
Total	**336.0**	**223.1**

In the financial year under review, Other income of the shipping division primarily resulted from the divestment of Montreal Gateway Terminals (€ 185.4 million) outlined under 'Acquisitions – divestments' and of the divestment of shares of Germanischer Lloyd (€ 15.1 million). In addition, gains on disposal from the airlines sector (€ 31.1 million), from the hotel sector the sale of properties of the Riu group (€ 12.1 million) and from real estate sector (€ 13.5 million) were included here. In connection with the operations discontinued in previous periods, income from the reversal of provisions of € 32.0 million was recognised.

The income shown in the 2006 financial year mainly resulted from the divestment of the TQ3 Group (€ 149.2 million), the realisation of income from the sale of Schacht Konrad (€ 40.8 million), sale-and-lease-back agreements for aircraft and ship containers (€ 27.0 million) and the divestment of the 80% interest in Wolf GmbH (€ 35.0 million).

On the other hand, the Other expenses shown in the 2006 financial year mainly resulted from the one-off realisation of currency differences in connection with the reduction of investments in foreign subsidiaries, previously shown under equity with no effect on results, of € 65.0 million. They also included book losses from sale-and-lease-back agreements in shipping (€ 16.6 million) and the sale of the interest in the TUI InfoTec Group (€ 10.6 million).

(4) Impairments of goodwill

As a result of the impairment tests carried out in the 2007 financial year, goodwill had to be impaired in tourism, as was the case in 2006. These impairments mainly resulted from the Irish market and the reserved planning of the Magic Life Group. The impairments can be broke down as follows:

Impairments of goodwill

€ million	Impairment charged	Reduced growth rate (0.50% p. a.)	Increased interest rate (0.50% p. a.)
TUI Travel PLC			
Budget Travel Group	33.7	–	–
TUI Hotels & Resorts			
Magic Life Group	20.0	–	–

The assets and liabilities held for sale of the divestment of the Irish Budget Travel Group in 2007 had to be shown in a separate balance sheet item for the relevant period of less than one year according to IFRS 5.

As the impairment of goodwill for the Budget Travel Group and the Magic Life Group amounting to the overall carrying amount, the decline in the growth rate and the increase in the weighted average cost of capital themselves did not have any impact on further impairments required. The impairments of the hotel complexes owned by Magic Life would rise by a further € 7.1 million if the growth rate dropped by 0.50% p. a. with other parameters remaining unchanged, and by € 8.1 million if the cost of capital rose by 0.50% p. a. No further impairments would be required, neither from a decrease in the growth rate nor from an increase in the cost of capital rate.

(5) Financial income

Financial income

€ million	2007	2006 restated
Income from non-consolidated Group companies	1.4	2.0
Income from other investments	2.9	2.1
Income from profit transfer agreements with non-consolidated Group companies	3.3	3.7
Income from investments	**7.6**	**7.8**
Other income from securities and long-term loans	6.9	7.1
Interest and similar income from non-consolidated Group companies	0.5	0.6
Interest income from fund assets for the financing of pension obligations	93.6	86.9
Other interest and similar income	85.1	69.3
Interest income	**186.1**	**163.9**
Income from the measurement of interest hedges	- 0.9	0.3
Income from the measurement of other financial instruments	17.0	7.3
Total	**209.8**	**179.3**

The income and expenses resulting from the development of the value of derivative financial instruments included results from the valuation of hedging instruments which do not meet the strict criteria of IAS 39 and are not allocable to other items of the profit and loss statement due to the underlying transactions.

In connection with the issue of the 2003/2008 convertible bond, TUI AG acquired derivative financial instruments (call spreads) enabling TUI AG to participate in the TUI share price development if the price level exceeds the conversion price by means of a compensation payment. The valuation of these instruments generated income of € 10.5 million in the 2007 financial year.

On 3 April 2006, TUI AG irrevocably waived its right to be able to deliver cash in the event of a conversion. As a result, the conversion options have already been classified as equity instruments during 2006. Until the waiver, measurement income including the call spread of € 7.3 million was generated in the 2006 financial year.

(6) Financial expenses

Financial expenses

€ million	2007	2006 restated
Expenses relating to losses taken over from non-consolidated Group companies	**1.6**	**2.8**
Write-downs of available-for-sale financial instruments and loans	**24.5**	**14.9**
Interest and similar expenses to non-consolidated Group companies	3.0	1.4
Interest expenses from the valuation of pension obligations	121.4	119.4
Other interest and similar expenses	318.3	262.6
Interest expenses	**442.7**	**383.4**
Expenses relating to the valuation of other financial instruments	–	–
Total	**468.8**	**401.1**

The write-downs of available-for-sale financial instruments and loans included € 24.5 million of impairments (previous year: € 14.9 million).

(7) Result from companies measured at equity

Result from companies measured at equity

€ million	2007	2006
Result from associated companies measured at equity	27.6	10.2
Result from joint ventures measured at equity	37.1	40.3
Total	**64.7**	**50.5**

The result from companies measured at equity comprised the prorated net profit for the year of the associated companies and joint ventures as well as impairments of goodwill of these companies. In the completed financial year, the result from companies measured at equity did not comprise any impairments of goodwill (previous year: € 3.3 million). In the financial year under review, prorated losses of € 1.6 million (previous year: € 2.8 million) of associated companies and joint ventures were not realised since the losses exceeded the value of the shareholdings. Accumulated losses not yet realised under the at equity valuation totalled € 3.6 million (previous year: € 7.6 million).

Group share in individual items of profit and loss statements of joint ventures

€ million	2007	2006
Operating income	384.0	315.8
Operating expenses	331.5	254.7
Operating result	**52.5**	**61.1**
Financial result	- 5.4	- 6.8
Profit on ordinary activities	**47.1**	**54.3**
Income taxes	10.0	10.7
Profit for the year	**37.1**	**43.6**
Impairment of companies measured at equity	–	3.3
Result from joint ventures measured at equity	**37.1**	**40.3**

Group share in individual items of profit and loss statements of associated companies

€ million	2007	2006
Operating income	128.3	173.8
Operating expenses	85.9	153.6
Operating result	**42.4**	**20.2**
Financial result	- 2.3	- 1.7
Profit on ordinary activities	**40.1**	**18.5**
Income taxes	12.5	8.3
Profit for the year	**27.6**	**10.2**
Reversal of negative goodwill	–	–
Result from associated companies measured at equity	**27.6**	**10.2**

(8) Adjustment

On top of the disclosures required under IFRS, the consolidated profit and loss statement comprises a reconciliation to underlying earnings. The exceptional items show final consolidation successes under gains on disposal, events according to IAS 37 under restructuring and other effects on the EBITA under purchase price allocations. A further reconciliation covers the one-off items presented below:

Other one-off items

€ million	2007	2006
Tourism	120.4	59.5
Shipping	- 26.0	47.4
Central operations	- 32.0	65.0
Total	**62.4**	**171.9**

The special one-off costs arising in the tourism division in the 2007 financial year included an amount of € 55.9 million attributable to one-off integration expenses incurred in particular in connection with the merger between First Choice Holidays PLC and the TUI Group's tourism entities. The airlines sector of the tourism division incurred one-off expenses for the re-branding of the new TUIfly.com brand (€ 13.0 million) and one-off expenses for changes in the air passenger duty in the UK which could not be passed on to customers (€ 10.1 million). In the TUI Hotels & Resorts sector, special one-off expenses were incurred in connection with an impairment of Turkish hotel complexes (€ 37.3 million).

The one-off income posted by the shipping division mainly resulted from a revaluation of a risk position formed as at the date of acquisition of the CP Ships Group in relation to which only minor subsequent expenses had been incurred for the integration of CP Ships.

Central operations show one-off income from the reversal of litigation provisions.

(9) Income taxes

Breakdown of income tax expenses

€ million	2007	2006 restated
Current income taxes		
in Germany	24.9	49.9
abroad	78.5	64.2
Deferred tax expenses	- 102.6	15.3
Total	**0.8**	**129.4**

The strong year-on-year decline in tax expenses resulted from the corporate reorganisation of the German companies contributed to TUI Travel PLC and the effects of the issue of the new convertible bond. This results in a further capitalisation of tax loss carryforwards in the German entity of fiscal unities. The decline in current taxes in Germany was mainly attributable to a revaluation of tax risks included in 2006 figures.

In the financial year under review, total income tax expenses of € 0.8 million (previous year: € 129.4 million) were derived as follows from an 'expected' income tax expense that would have arisen if the statutory income tax rate of TUI AG as the parent company (aggregate income tax rate) had been applied to earnings before tax:

Reconciliation from expected to actual income tax expenses

€ million	2007	2006 restated
Earnings before taxes by continuing operations	237.1	- 731.1
Expected income tax expense (tax rate: 40.0%, previous year: 40.0%)	**94.8**	**- 292.4**
Variation from the difference between actual and expected tax rates	4.5	73.6
Tax rate and changes in tax law	- 5.0	- 11.1
Income with no tax effect	- 129.9	- 96.2
Expenses with no tax effect	89.7	370.9
Effects from loss carryforwards	- 48.1	9.6
Temporary differences and losses for which no deferred taxes were recognised	- 2.2	37.2
Effective tax expenses and income relating to other periods	- 6.2	35.8
Other differences	3.2	2.0
Actual income tax expense	**0.8**	**129.4**

Tax effects of the adjustment of loss carryforwards primarily comprised the income from the capitalisation of loss carryforwards previously considered as non-realisable.

(10) Result from discontinuing operations

With the divestment of the US steel service companies of Preussag North America Inc. to financial investor Platinum Equity in May 2006 and the divestment of the majority interest in Wolf GmbH, a heating and air conditioning company, to Centrotec Sustainable AG in October 2006, the Group sold its last remaining industrial holdings.

As a result, the TUI Group now comprises the two core businesses tourism and shipping.

The Group currently does not have any discontinuing operations. The tables below provide an overview of the development of discontinuing operations in 2006:

Result from discontinuing operations

€ million	Earnings before income tax from current business operations	Income taxes from current business operations	Earnings before income tax from the divestment and impairments	Income taxes from the divestment and from impairments	Total
Special logistics	–	–	5.3	0.1	5.2
Trading	28.8	9.0	- 12.7	1.1	6.0
Other divestments	–	–	7.2	1.3	5.9
Total 2006	**28.8**	**9.0**	**- 0.2**	**2.5**	**17.1**

In 2006, the result from discontinuing operations comprised both the earnings after tax generated by the companies and the impairments effected due to the valuation of the disposal groups at fair value less costs to sell. Moreover, income and expenses resulting from the divestment and the related income tax effects were shown in the result from discontinuing operations and allocated to the segment of the discontinuing operation.

Detailed information on discontinuing operations in 2006 is provided in the notes on the consolidated financial statements as at 31 December 2006.

Material items of the profit and loss statement of the discontinuing operations

€ million	2007	Trading 2006
Turnover	–	401.0
Cost of sales	–	357.8
Administrative expenses	–	14.0
Financial income	–	0.4
Financial expenses	–	1.4
Result from companies measured at equity	–	0.6
Earnings before income taxes	–	28.8
Income taxes	–	9.0
Earnings after income taxes	–	19.8

As at 31 December 2006, the Group did not hold any assets or liabilities from discontinuing operations.

Cash flow from operating, investing and financing activities

€ million	2007	Trading 2006
Change in cash and cash equivalents due to exchange rate fluctuations	–	0.1
Cash flow from operating activities	–	- 17.4
Cash flow from investing activities	–	- 2.0
Cash flow from financing activities	–	18.4
Change in cash and cash equivalents	**–**	**- 0.9**

(11) Share of TUI AG shareholders in Group profit for the year

The share in Group profit for the year attributable to TUI AG shareholders rose from € - 890.3 million in 2006 to a positive result of € 175.1 million in the financial year under review.

(12) Minority interests in Group profit for the year

Minority interests in Group profit for the year

€ million	2007	2006 restated
Profit attributable to minority interests	61.2	47.9
Loss attributable to minority interests	0.0	1.0
Total	**61.2**	**46.9**

Profit for the year attributable to minority interests mainly related to consolidated subsidiaries in the tourism division, in particular the companies of the TUI Travel PLC Group and the RIUSA II Group.

(13) Earnings per share

In accordance with IAS 33, basic earnings per share were calculated by dividing the Group's net profit for the year attributable to TUI AG shareholders by the weighted average number of no-par value bearer shares outstanding during the financial year under review. The average number of shares resulted from the total number of shares at the beginning of the financial year (251,019,855 shares) and the employee shares issued, included on a pro rata temporis basis (225,720 shares, 17 days).

A dilution of earnings per share occurs when the average number of shares is increased by adding the issue of potential shares from warrants and conversion options. Diluting effects arose from the convertible bonds issued in October 2003 and June 2007. The conversion options may be exercised any time. Calculation of the diluting effect is based on the assumption of complete conversion and the corresponding issue of shares at the beginning of the respective financial year. However, no diluting effect arises in the event of negative basic earnings per share.

In line with IAS 33.12, the after-tax dividend on the hybrid capital was deducted from the share of TUI AG shareholders in Group profit for the year representing the hybrid capital as equity but does not represent a share of TUI AG shareholders. For the hybrid capital, accrued dividend obligations totalled € 25.9 million as at the balance sheet date; they were included in financial liabilities and paid in January 2008.

Earnings per share

	2007	**2006** restated
Group profit/loss for the year attributable to TUI AG shareholders (€ million)	175.1	- 890.3
Dividend effect on hybrid capital after income taxes (€ million)	- 23.2	- 25.2
Adjusted Group result for the year attributable to TUI AG shareholders (€ million)	151.9	- 915.5
Weighted average number of shares	251,030,397	250,742,835
Basic earnings per share (€)	**0.61**	**- 3.65**
Adjusted Group profit/loss for the year attributable to TUI AG shareholders (€ million)	151.9	- 915.5
Interest savings from convertible bonds (€ million)	27.8	15.6
Diluted and adjusted share in Group profit/loss for the year attributable to TUI AG shareholders (€ million)	179.7	- 899.9
Weighted average number of shares	251,030,397	250,742,835
Diluting effect from assumed exercise of convertible bonds	34,011,266	19,385,785
Weighted average number of shares (diluted)	285,041,663	270,128,620
Diluted earnings per share (€)	**0.61**	**- 3.65**

As both convertible bonds don't create a dilution effect in 2007, undiluted and diluted earnings per share are identical.

Notes on the Consolidated Balance Sheet

(14) Goodwill

Goodwill

€ million	2007	2006
Historical cost		
Balance as at 1 Jan	**3,851.7**	**3,836.2**
Exchange differences	- 203.8	29.1
Additions due to changes in the group of consolidated companies	1,332.5	0.1
Additions	36.5	9.1
Disposals[1]	1,535.5	18.4
Reclassifications[2]	- 94.3	- 4.4
Balance as at 31 Dec	**3,387.1**	**3,851.7**
Impairment		
Balance as at 1 Jan	**716.9**	**0.0**
Exchange differences	- 25.8	7.4
Additions due to changes in in the group of consolidated companies	–	–
Impairment for the current year	20.0	709.5
Disposals[1]	292.1	–
Reclassifications	- 90.2	–
Balance as at 31 Dec	**328.8**	**716.9**
Carrying amounts as at 31 Dec	**3,058.3**	**3,134.8**

[1] of which no disposals due to changes in the group of consolidated companies (2006: € 6.6 million and € 0.0 million, respectively)

[2] including additions of € 26.6 million, which have been posted under payments on account in the previous year

Pursuant to IFRS 5, assets of the discontinuing operations and other non-current assets held for sale were summarised as a disposal group in the balance sheet. Reclassifications of goodwill classified as held for sale in the course of the financial year under review were carried as reclassifications.

In the completed financial year, goodwill impairments of € 20.0 million (previous year: € 709.5 million) were required, fully attributable to the Magic Life Group. Detailed information on the implementation and results of the impairment tests is provided under 'Accounting and measurement' and under note 4.

In accordance with the rules of IAS 21, goodwill allocated to individual segments and sectors was recognised in the functional currency of the subsidiaries and subsequently translated in the framework of the preparation of the consolidated financial statements. In analogy to the treatment of other differences from the translation of annual financial statements of foreign subsidiaries, differences due to exchange rate fluctuations between the exchange rate at the date of acquisition of the subsidiary and the exchange rate at the balance sheet date were taken directly to and recognised separately under equity without effecting profit and loss. In the 2007 financial year, the carrying amount of goodwill decreased by € 178.0 million (previous year: increase of € 21.7 million) due to exchange differences.

In the 2007 financial year, goodwill of € 1,227.7 million arose from the merger between TUI's tourism division (excluding the TUI Hotels & Resorts sector) and First Choice Holidays PLC and the resulting first-time consolidation of TUI Travel PLC. At the same time, a disposal of goodwill of € 1,242.9 million resulted from the contribution of the TUI Group's tourism companies to TUI Travel PLC. In 2006, disposals of goodwill of € 18.4 had arisen from the divestment of subsidiaries.

In the tourism segment, the largest portion of goodwill carried (€ 2,522.3 million) was related to the TUI Travel PLC sector. Goodwill of € 356.8 million was shown for the Riu Group operating in the TUI Hotels & Resorts sector. The shipping segment accounted for goodwill of € 100.6 million. The goodwill of € 22.5 million (previous year: € 0.9 million) arising from the acquisition of minority shares in the financial year under review was directly eliminated against other revenue reserves.

(15) Other intangible assets

Other intangible assets

€ million	Concessions, industrial property rights and similar rights and values	Self-generated software	Transport and leasing contracts	Customer base	Payments on account	Total
Historical cost						
Balance as at 1 Jan 2006	**318.0**	**318.2**	**578.3**	**139.1**	**2.9**	**1,356.5**
Exchange differences	0.8	- 9.5	- 58.6	- 14.1	–	- 81.4
Additions due to changes in the group of consolidated companies	1.6	–	–	2.2	–	3.8
Additions	30.9	11.7	–	–	3.3	45.9
Disposals	80.7	219.2	–	–	0.2	300.1[1)]
Reclassifications	14.7	- 11.4	- 66.9	- 21.2	- 2.0	- 86.8
Balance as at 31 Dec 2006	**285.3**	**89.8**	**452.8**	**106.0**	**4.0**	**937.9**
Exchange differences	- 54.9	- 12.9	- 39.1	- 32.6	–	- 139.5
Additions due to changes in the group of consolidated companies	516.1	94.1	120.6	286.3	–	1,017.1
Additions	40.3	7.5	–	9.2	7.0	64.0
Disposals	18.0	0.6	–	–	–	18.6[2)]
Reclassifications	9.8	- 7.1	–	–	- 2.9	- 0.2
Balance as at 31 Dec 2007	**778.6**	**170.8**	**534.3**	**368.9**	**8.1**	**1,860.7**
Amortisation						
Balance as at 1 Jan 2006	**225.5**	**253.1**	**9.0**	**5.5**	**0.0**	**493.1**
Exchange differences	0.6	- 10.0	- 3.6	- 1.0	–	- 14.0
Additions due to changes in the group of consolidated companies	–	–	–	–	–	–
Amortisation for the current year	39.0	16.4	50.2	8.1	–	113.7
Disposals	71.1	185.0	–	–	–	256.1[1)]
Reclassifications	11.5	- 11.0	- 2.2	- 2.0	–	- 3.7
Balance as at 31 Dec 2006	**205.5**	**63.5**	**53.4**	**10.6**	**0.0**	**333.0**
Exchange differences	- 12.5	- 8.1	- 5.0	- 3.3	–	- 28.9
Additions due to changes in the group of consolidated companies	0.3	45.1	–	–	–	45.4
Amortisation for the current year	42.7	10.7	47.0	54.7	–	155.1
Disposals	17.4	0.2	–	–	–	17.6[2)]
Reclassifications	6.3	- 6.4	–	–	–	- 0.1
Balance as at 31 Dec 2007	**224.9**	**104.6**	**95.4**	**62.0**	**0.0**	**486.9**
Carrying amounts as at 31 Dec 2006	**79.8**	**26.3**	**399.4**	**95.4**	**4.0**	**604.9**
Carrying amounts as at 31 Dec 2007	**553.7**	**66.2**	**438.9**	**306.9**	**8.1**	**1,373.8**

[1)] of which disposals due to changes in the group of consolidated companies of € 200.0 million and € 159.7 million, respectively

[2)] of which disposals due to changes in the group of consolidated companies of € 2.8 million and € 2.1 million, respectively

Self-generated software related to computer programmes for tourism applications exclusively used internally by the Group.

The other intangible assets acquired in the wake of the merger with the First Choice Holidays Group, relating in particular to trademarks and customer bases were amortised annually on the basis of the economic benefit determining the corresponding asset. The trademarks were amortised over period of 15 to 20 years, while the customer bases were amortised over periods of two and 15 years.

In the completed financial year, impairments of € 3.6 million (previous year: € 8.3 million) were charged, relating to concessions, industrial property rights and similar rights and values. As in 2006, no write-backs to other intangible assets were effected in the year under review.

(16) Investment property

Investment property

€ million	2007	2006
Historical cost		
Balance as at 1 Jan	**157.1**	**144.5**
Exchange differences	–	–
Additions due to changes in the group of consolidated companies	–	–
Additions	7.4	7.5
Disposals	21.8	11.0
Reclassifications	- 2.0	16.1
Balance as at 31 Dec	**140.7**	**157.1**
Depreciation		
Balance as at 1 Jan	**61.4**	**54.3**
Exchange differences	–	–
Additions due to changes in the group of consolidated companies	–	–
Depreciation for the current year	6.9	11.0
Disposals	18.0	8.9
Reclassifications	- 0.1	5.0
Balance as at 31 Dec	**50.2**	**61.4**
Carrying amounts as at 31 Dec	**90.5**	**95.7**

As a matter of principle, real estate owned by the Group is used for the Group's ordinary business activities. In addition, the Group owned commercial property and apartments which met the definition of investment property under IAS 40. The carrying amount of this investment property carried in fixed assets totalled € 90.5 million (previous year: € 95.7 million). The fair values totalling € 99.0 million (previous year: € 104.3 million) were calculated by the Group's own real estate companies, without consulting an external expert, on the basis of comparable market rents. The fair value of property for which purchase contracts had already been concluded was the selling price. Investment property generated total income of € 43.6 million (previous year: € 41.3 million). The generation of this income was associated with expenses of € 44.7 million (previous year: € 38.7 million) in the 2007 financial year. Impairments of € 3.9 million (previous year: € 7.4 million) were charged for investment property.

(17) Property, plant and equipment

Property, plant and equipment

€ million	Real estate with hotels	Other real estate, land rights and buildings incl. buildings on third-party properties	Aircraft
Historical cost			
Balance as at 1 Jan 2006	**1,102.2**	**612.9**	**2,246.8**
First-time application of IFRS 5	8.7	–	–
Adjusted balance as at 1 Jan 2006	1,110.9	612.9	2,246.8
Exchange differences	- 32.5	0.2	18.6
Additions due to changes in the group of consolidated companies	28.2	6.8	–
Additions	92.5	11.5	180.1
Disposals	7.8	89.7	242.7
Reclassifications	- 27.8	- 3.7	113.8
Balance as at 31 Dec 2006	**1,163.5**	**538.0**	**2,316.6**
Exchange differences	- 36.7	- 16.4	- 78.6
Additions due to changes in the group of consolidated companies	10.0	137.4	134.0
Additions	128.1	55.5	43.8
Disposals	1.6	17.5	158.9
Reclassifications	21.1	- 32.4	–
Balance as at 31 Dec 2007	**1,284.4**	**664.6**	**2,256.9**
Depreciation			
Balance as at 1 Jan 2006	**232.6**	**212.5**	**929.2**
First-time application of IFRS 5	1.0	–	–
Adjusted balance as at 1 Jan 2006	233.6	212.5	929.2
Exchange differences	- 2.6	1.1	12.1
Additions due to changes in the group of consolidated companies	9.7	1.3	–
Depreciation for the current year	66.5	12.3	159.7
Disposals	3.9	51.3	128.5
Reclassifications	- 9.3	- 2.5	–
Balance as at 31 Dec 2006	**294.0**	**173.4**	**972.5**
Exchange differences	- 4.5	- 8.3	- 47.1
Additions due to changes in the group of consolidated companies	–	58.4	62.9
Depreciation for the current year	75.8	17.7	164.9
Disposals	3.0	14.3	113.5
Reclassifications	1.0	1.6	–
Balance as at 31 Dec 2007	**363.3**	**228.5**	**1,039.7**
Carrying amounts as at 31 Dec 2006	**869.5**	**364.6**	**1,344.1**
Carrying amounts as at 31 Dec 2007	**921.1**	**436.1**	**1,217.2**

[1] of which disposals due to changes in in the group of consolidated companies of € 210.6 million and € 141.5 million, respectively

At the balance sheet date, the carrying amount of property, plant and equipment subject to restraints on ownership amounted to € 79.1 million (previous year: € 16.2 million), including an amount of € 79.1 million (previous year: € 14.4 million) pledged as security.

The Group reversed depreciation of property, plant and equipment of € 3.3 million (previous year: € 0.0 million); impairments totalled € 45.5 million and included an amount of € 38.2 million for land with buildings and € 3.5 million for aircraft.

Ships	Container and container semitrailers	Machinery and fixtures	Other plants, operating and office equipment	Assets under construction	Payments on account	Total
3,175.7	**881.1**	**332.5**	**1,182.9**	**71.1**	**148.7**	**9,753.9**
–	–	–	–	1.5	2.1	12.3
3,175.7	881.1	332.5	1,182.9	72.6	150.8	9,766.2
- 67.5	4.0	- 9.5	- 10.4	- 0.4	0.6	- 96.9
–	–	–	15.2	–	0.1	50.3
120.4	38.1	16.3	119.3	32.6	81.6	692.4
566.2	81.1	55.5	264.5	4.1	10.5	1,322.1[1]
0.3	–	- 81.9	- 1.7	- 21.0	- 92.2	- 114.2
2,662.7	**842.1**	**201.9**	**1,040.8**	**79.7**	**130.4**	**8,975.7**
- 32.9	- 0.7	0.4	- 42.2	- 0.2	–	- 207.3
231.5	–	–	201.9	3.8	–	718.6
269.2	74.7	18.2	82.6	87.8	248.5	1,008.4
71.2	52.3	8.5	88.2	0.4	57.2	455.8[2]
21.8	1.2	3.2	3.7	- 28.4	- 30.9	- 40.7
3,081.1	**865.0**	**215.2**	**1,198.6**	**142.3**	**290.8**	**9,998.9**
1,111.6	**408.0**	**190.7**	**787.1**	**0.0**	**0.0**	**3,871.7**
–	–	–	–	–	–	1.0
1,111.6	408.0	190.7	787.1	0.0	0.0	3,872.7
- 5.0	4.0	- 5.7	- 11.9	–	–	- 8.0
–	–	–	11.7	–	–	22.7
158.0	57.2	21.9	121.7	–	–	597.3
115.3	33.0	42.4	227.6	–	–	602.0[1]
- 10.0	10.0	- 51.3	- 6.0	–	–	- 69.1
1,139.3	**446.2**	**113.2**	**675.0**	**0.0**	**0.0**	**3,813.6**
- 2.6	- 0.2	0.1	- 30.4	–	–	- 93.0
45.9		–	142.5	–	–	309.7
155.6	59.2	15.3	102.9	–	–	591.4
62.7	48.0	7.7	76.1	–	–	325.3[2]
–	0.5	–	- 6.8	–	–	- 3.7
1,275.5	**457.7**	**120.9**	**807.1**	**0.0**	**0.0**	**4,292.7**
1,523.4	**395.9**	**88.7**	**365.8**	**79.7**	**130.4**	**5,162.1**
1,805.6	**407.3**	**94.3**	**391.5**	**142.3**	**290.8**	**5,706.2**

[2] of which disposals due to changes in in the group of consolidated companies of € 8.6 million and € 6.0 million, respectively

Reclassifications of € 16.3 million or € 3.8 million related in particular to the reclassification of assets held for sale. In the 2007 financial year, these assets primarily comprised apartments in a hotel complex.

Property, plant and equipment comprised all leased assets in which consolidated subsidiaries carried all the risks and rewards incident to ownership of the assets.

Development of leased assets

€ million	Buildings	Aircraft	Ships	Containers	Other	Total
Historical cost						
Balance as at 1 Jan 2006	**10.8**	**471.2**	**60.9**	**9.3**	**21.6**	**573.8**
Exchange differences	–	3.9	–	- 0.9	- 0.3	2.7
Additions due to changes in the group of consolidated companies	–	–	–	–	–	0.0
Additions	0.4	0.2	70.5	2.3	3.5	76.9
Disposals	–	–	131.4	–	17.3	148.7[1)]
Reclassifications	–	40.2	–	0.3	- 0.3	40.2
Balance as at 31 Dec 2006	**11.2**	**515.5**	**0.0**	**11.0**	**7.2**	**544.9**
Exchange differences	–	- 15.2	- 2.7	- 1.2	- 0.4	- 19.5
Additions due to changes in the group of consolidated companies	–	4.8	27.1	–	17.8	49.7
Additions	6.6	–	0.6	–	8.7	15.9
Disposals	–	22.2	0.9	–	0.2	23.3[2)]
Reclassifications	–	–	–	–	–	0.0
Balance as at 31 Dec 2007	**17.8**	**482.9**	**24.1**	**9.8**	**33.1**	**567.7**
Depreciation						
Balance as at 1 Jan 2006	**2.2**	**108.7**	**1.9**	**2.7**	**14.3**	**129.8**
Exchange differences	–	1.9	–	0.3	–	2.2
Additions due to changes in the group of consolidated companies	–	–	–	–	–	0.0
Depreciation for the current year	0.2	40.9	5.3	0.8	4.0	51.2
Disposals	–	–	7.2	–	14.8	22.0[1)]
Reclassifications	–	39.8	–	0.3	- 0.3	39.8
Balance as at 31 Dec 2006	**2.4**	**191.3**	**0.0**	**4.1**	**3.2**	**201.0**
Exchange differences	–	- 8.4	- 0.7	- 0.5	- 0.3	- 9.9
Additions due to changes in the group of consolidated companies	–	3.5	7.9	–	13.0	24.4
Depreciation for the current year	0.3	39.0	0.3	0.9	1.3	41.8
Disposals	–	11.5	0.1	–	0.3	11.9[2)]
Reclassifications	–	–	–	–	–	0.0
Balance as at 31 Dec 2007	**2.7**	**213.9**	**7.4**	**4.5**	**16.9**	**245.4**
Carrying amounts as at 31 Dec 2006	**8.8**	**324.2**	**0.0**	**6.9**	**4.0**	**343.9**
Carrying amounts as at 31 Dec 2007	**15.1**	**269.0**	**16.7**	**5.3**	**16.2**	**322.3**

[1)] of which disposals due to changes in the group of consolidated companies of € 7.8 million and € 6.2 million, respectively

[2)] no disposals due to changes in the group of consolidated companies

The payment obligations resulting from future lease payments were carried as liabilities, without taking account of future interest expenses. Payments due in future under finance leases totalled € 292.4 million (previous year: € 346.7 million). Group companies accepted guarantees for the residual values of the leased assets totalling € 137.1 million (previous year: € 135.1 million).

Reconciliation of future lease payments to liabilities from finance leases

				31 Dec 2007	31 Dec 2006
		Remaining terms			
€ million	up to 1 year	more than 1-5 years	more than 5 years	Total	Total
Total future lease payments	35.1	234.1	23.2	292.4	346.7
Interest portion	11.0	24.1	0.9	36.0	55.6
Liabilities from finance leases	24.1	210.0	22.3	256.4	291.1

However, Group companies were not only lessees but also lessors under finance leases. To a small extent, the Group leased out Group-owned aircraft to non-Group third parties on the basis of finance leases.

Reconciliation of future lease payments to be received to receivables from finance leases

				31 Dec 2007	31 Dec 2006
		Remaining terms			
€ million	up to 1 year	more than 1-5 years	more than 5 years	Total	Total
Total future lease payments to be received	6.6	–	–	6.6	10.1
Interest portion	–	–	–	–	0.5
Receivables from finance leases	6.6	0.0	0.0	6.6	9.6

In the framework of ordinary business activities, Group companies generated turnover of € 29.0 million (previous year: € 34.9 million) from leasing and renting out investment property on the basis of short-term contracts

(18) Companies measured at equity

Companies measured at equity

€ million	Measured at equity Joint ventures	Associated companies	Total
Historical cost			
Balance as at 1 Jan 2006	**310.9**	**61.8**	**372.7**
Exchange differences	- 4.1	- 0.6	- 4.7
Additions due to changes in the group of consolidated companies	15.4	3.1	18.5
Additions	53.2	11.9	65.1
Disposals	42.4	3.6	46.0[1]
Reclassifications	12.4	- 7.0	5.4
Balance as at 31 Dec 2006	**345.4**	**65.6**	**411.0[1]**
Exchange differences	- 7.0	1.4	- 5.6
Additions due to changes in the group of consolidated companies	51.0	–	51.0
Additions	62.6	61.9	124.5
Disposals	23.2	10.8	34.0[2]
Reclassifications	3.0	- 5.9	- 2.9
Balance as at 31 Dec 2007	**431.8**	**112.2**	**544.0**
Impairments			
Balance as at 1 Jan 2006	**0.0**	**0.0**	**0.0**
Exchange differences	–	–	0.0
Additions due to changes in the group of consolidated companies	–	–	0.0
Impairments for the current year	3.3	–	3.3
Disposals	–	–	0.0
Reclassifications	–	–	0.0
Balance as at 31 Dec 2006	**3.3**	**0.0**	**3.3**
Exchange differences	–	–	0.0
Additions due to changes in the group of consolidated companies	–	–	0.0
Impairments for the current year	–	–	0.0
Disposals	–	–	0.0
Reclassifications	–	–	0.0
Balance as at 31 Dec 2007	**3.3**	**0.0**	**3.3**
Carrying amounts as at 31 Dec 2006	**342.1**	**65.6**	**407.7**
Carrying amounts as at 31 Dec 2007	**428.5**	**112.2**	**540.7**

[1] no disposals due to changes in the group of consolidated companies
[2] of which disposals due to changes in the group of consolidated companies of € 6.0 million

For associated companies and joint ventures measured at equity, proportionate profits for the year were shown under additions and disposals, while impairments of goodwill were carried under impairments for the year.

For associated companies and companies jointly managed by the Group and other partners (joint ventures), the Group share corresponded to the share in the individual assets and liabilities of the joint ventures.

Group share in assets and liabilities of joint ventures

€ million	31 Dec 2007	31 Dec 2006
Goodwill from equity measurement	41.0	36.8
Non-current assets	492.2	458.5
Current assets	156.3	118.0
Non-current provisions and liabilities	136.5	160.0
Current provisions and liabilities	124.5	111.2
Joint ventures measured at equity	**428.5**	**342.1**

Group share in assets and liabilities of associated companies

€ million	31 Dec 2007	31 Dec 2006
Goodwill from equity measurement	11.2	15.5
Non-current assets	173.6	103.9
Current assets	69.6	51.5
Non-current provisions and liabilities	106.7	61.0
Current provisions and liabilities	35.5	44.3
Associated companies measured at equity	**112.2**	**65.6**

(19) Financial assets available for sale

Financial assets available for sale

€ million	31 Dec 2007	31 Dec 2006
Shares in non-consolidated Group companies	37.7	49.5
Shares in affiliated companies	50.8	45.5
Other securities	33.4	28.1
Total	**121.9**	**123.1**

Where a listed market price in an active market was not available for shares held and other methods to determine an objective market value did not produce any reliable results, the shares were measured at amortised cost. In the 2007 financial year, financial assets classified as available for sale under IFRS 7 of € 15.9 million (previous year: € 5.1 million) were impaired.

The securities shown included an amount of € 13.7 million (previous year: € 5.8 million) of current securities.

(20) Trade accounts receivable and other receivables

Trade accounts receivable and other receivables

€ million	31 Dec 2007 Remaining term of more than 1 year	31 Dec 2007 Total	31 Dec 2006 Total	31 Dec 2006 Remaining term of more than 1 year
Trade accounts receivable	–	1,069.5	887.8	–
Advances and loans	299.6	935.9	589.1	285.3
Other receivables and assets	109.2	899.7	652.8	66.4
Total	**408.8**	**2,905.1**	**2,129.7**	**351.7**

The increase in trade accounts receivable and other receivables was primarily attributable to the first-time consolidation of the First Choice Holidays Group.

Aging structure of the financial instruments included in the trade accounts receivable and other receivables

€ million	Book value financial instru-ments	of which not over-due and not im-paired	of which not impaired and due in the following periods less than 29 days	between 30 and 90 days	between 91 and 180 days	more than 181 days
31 Dec 2007						
Trade accounts receivables	1,069.5	672.5	200.9	126.6	55.9	13.6
Advances and loans	214.5	214.1	0.4	–	–	–
Other receivables and assets	306.7	286.4	6.3	4.5	2.7	6.8
Total	**1,590.7**	**1,173.0**	**207.6**	**131.1**	**58.6**	**20.4**
31 Dec 2006						
Trade accounts receivables	887.8	369.0	345.9	149.1	18.1	5.7
Advances and loans	250.8	250.4	0.3	–	–	0.1
Other receivables and assets	189.9	167.1	6.8	2.7	4.6	8.7
Total	**1,328.5**	**786.5**	**353.0**	**151.8**	**22.7**	**14.5**

For the amounts carried under receivables neither overdue nor impaired, no indications existed at the balance sheet date indicating that the debtors will not meet their payment obligations.

In the 2007 financial year, financial assets classified as trade accounts receivable and other receivables in accordance with IFRS 7 of € 31.1 million (previous year: € 36.3 million) were impaired. The cash inflow from impaired interest-bearing trade accounts receivable and other receivables totalled € 1.2 million (previous year: € 4.5 million).

Trade accounts receivable

€ million	31 Dec 2007	31 Dec 2006
From third parties	1,060.6	879.5
From non-consolidated Group companies	0.6	2.3
From affiliates	8.3	6.0
Total	**1,069.5**	**887.8**

Advances and loans

€ million	31 Dec 2007 Remaining term of more than 1 year	31 Dec 2007 Total	31 Dec 2006 Total	31 Dec 2006 Remaining term of more than 1 year
Advances to non-consolidated Group companies	2.9	7.3	9.3	4.5
Loans to non-consolidated Group companies	1.3	2.1	1.2	1.2
Advances to affiliates	2.9	16.7	16.4	0.9
Loans to affiliates	1.0	6.8	9.7	1.1
Advances to third parties	14.5	64.4	66.3	13.3
Loans to third parties	50.9	133.0	176.2	150.9
Payments on account	226.1	705.6	310.0	113.4
Total	**299.6**	**935.9**	**589.1**	**285.3**

Payments on account mainly related to advance payments for future tourism services, in particular hotel services and ordered aircraft, customary in the industry.

Other receivables and assets

€ million	31 Dec 2007 Remaining term of more than 1 year	31 Dec 2007 Total	31 Dec 2006 Total	31 Dec 2006 Remaining term of more than 1 year
Other receivables from non-consolidated Group companies	2.5	4.9	4.8	2.0
Other receivables from affiliates	0.1	9.9	8.7	2.8
Interest deferral	–	55.1	15.8	3.9
Receivables from finance leases	–	6.6	9.6	7.2
Other tax refund claims	6.9	134.9	86.5	9.6
Other assets	98.2	378.3	221.6	38.8
Prepaid expenses	1.5	310.0	305.8	2.1
Total	**109.2**	**899.7**	**652.8**	**66.4**

Prepaid expenses mainly comprised accrued expenses for return flights taking place after the balance sheet date and accrued rental costs.

In the 2007 financial year, financial assets of € 9.1 million (previous year: € 15.8 million) were deposited with counterparties in order to collateralise contractually agreed liabilities.

(21) Derivative financial instruments

Derivative financial instruments

€ million	31 Dec 2007 Remaining term of more than 1 year	31 Dec 2007 Total	31 Dec 2006 Total	31 Dec 2006 Remaining term of more than 1 year
Receivables from derivative financial instruments	28.8	441.9	84.0	7.8

Derivative financial instruments were carried at their fair values (market values). They mainly served to hedge the future operative business and are detailed in the explanations on financial instruments.

(22) Current and deferred income tax claims

The determination of current and deferred income taxes is outlined in detail in the section 'Accounting and measurement methods'.

Income tax claims

€ million	31 Dec 2007	31 Dec 2006
Deferred income tax claims	192.3	275.6
Current income tax claims	42.0	23.4
Total	**234.3**	**299.0**

Deferred income tax claims included an amount of € 145.9 million (previous year: € 200.2 million) to be realised in more than twelve months.

Individual items of deferred tax assets and liabilities recognised in the balance sheet

€ million	31 Dec 2007 Asset	31 Dec 2007 Liability	31 Dec 2006 Asset	31 Dec 2006 restated Liability
Finance lease transactions	20.9	–	28.1	–
Recognition and measurement differences for property, plant and equipment and other non-current assets	31.9	463.9	85.2	371.5
Recognition differences for receivables and other assets	25.5	30.1	66.8	46.9
Fair Value measurement of financial instruments	108.7	180.0	104.6	87.0
(of which with no effect on result)	(108.6)	(99.2)	(91.3)	(15.5)
Measurement of pension provisions	123.9	7.9	193.3	21.6
(of which with no effect on result)	(94.8)	(6.5)	(166.0)	(0.2)
Recognition and measurement differences for other provisions	70.7	39.3	96.4	65.5
Other transactions	62.4	41.8	87.6	40.3
Capitalised tax savings from recoverable loss carryforwards	265.8	–	188.8	–
Netting of deferred tax assets and liabilities	- 517.5	- 517.5	- 575.2	- 575.2
Balance sheet amount	**192.3**	**245.5**	**275.6**	**57.6**

Deferred taxes with no effect on profit and loss mainly resulted from the treatment of actuarial gains and losses in connection with the recognition of pension obligations, the measurement of derivatives used as cash flow hedges and the issue of the convertible bond. Overall, equity decreased by € 168,3 million (previous year: € 64.7 million) due to the offsetting of deferred taxes with no effect on profit and loss in the 2007 financial year. In addition to this, equity rose by € 13.4 million due to the accounting for deferred taxes with no effect on profit and loss, acquired by the first-time consolidation of the First Choice Holidays Group. Consequently, equity decreased by € 154.9 million due to deferred taxes with no effect on profit and loss in the 2007 financial year. No deferred tax liabilities were carried for temporary differences of € 43.0 million between the net assets and the tax-related carrying amounts of subsidiaries since these temporary differences were not expected to be reversed in the near future.

Capitalised loss carryforwards and time limits for non-capitalised loss carryforwards

€ million	31 Dec 2007	31 Dec 2006
Capitalised loss carryforwards	**1,429.9**	**807.1**
Non-capitalised loss carryforwards	**2,649.5**	**4,234.4**
of which loss carryforwards forfeitable within one year	10.9	21.8
of which loss carryforwards forfeitable within 2 to 5 years	125.4	96.3
of which loss carryforwards forfeitable within more than 5 years (excluding non-forfeitable loss carryforwards)	0.9	2.1
Non-forfeitable loss carryforwards	2,512.3	4,114.2
Total unused loss carryforwards	**4,079.4**	**5,041.5**

The decrease of unused loss carryforwards is due to a change in the determination technique of existing loss carryforwards. Applying this technique reduced the previous years amount for unused loss carryforwards by € 578.7 million.

Potential tax savings of € 480.8 million (previous year: € 814.1 million) were not capitalised since use of the underlying loss carryforwards was not probable within the planning period.

In the 2007 financial year, the use of loss carryforwards previously assessed as non-recoverable and for which therefore no asset had been carried for the resulting potential tax savings led to tax savings of € 2.6 million (previous year: € 1.6 million). In the 2007 financial year, no tax reductions were realised by means of loss carry-backs, as in 2006.

Development of capitalised tax savings from realisable loss carryforwards

€ million	2007	2006
Capitalised tax savings at the beginning of the year	**188.8**	**133.8**
Changes in the group of consolidated companies and currency adjustments	- 1.8	- 0.9
Use of loss carryforwards	- 38.9	- 10.3
Capitalisation of tax savings from loss carryforwards	+ 175.7	+ 80.1
Write-down of capitalised tax savings from loss carryforwards	- 58.0	- 13.9
Capitalised tax savings at financial year-end	**265.8**	**188.8**

Capitalised tax savings from loss carryforwards assessed as recoverable in future rose by € 77.0 million year-on-year. The write-down on capitalised tax savings mainly comprised the effect of the change in the deferred tax rate in Germany in the 2007 financial year.

The capitalised deferred tax claim of € 80.7 million resulting from temporary differences and realisable loss carryforwards of the newly formed fiscal unity in Germany (caused by the re-organisation of the German companies inserted to TUI Travel PLC) is covered by the expected future taxable income independently of current tax losses.

(23) Inventories

Inventories

€ million	31 Dec 2007	31 Dec 2006
Raw materials and supplies	165.4	102.1
Work in progress	2.6	3.5
Finished goods and merchandise	40.7	23.7
Total	**208.7**	**129.3**

As in the previous year, no inventories had to be carried at net realisable value in the 2007 financial year. No write-backs of inventories were effected in 2007, nor in 2006.

(24) Cash and cash equivalents

Cash and cash equivalents

€ million	31 Dec 2007	31 Dec 2006
Bank deposits	1,586.0	667.5
Cash in hand and cheques	28.0	21.2
Total	**1,614.0**	**688.7**

At year-end 2007, an amount of € 0.2 billion of cash and cash equivalents were subject to restraints on disposal.

(25) Assets held for sale

Assets held for sale

€ million	31 Dec 2007	31 Dec 2006
Other non-current assets	8.8	171.4

In accordance with IFRS 5, the assets of discontinuing operations and the non-current assets subject to a specific plan to sell had to be combined into a disposal group in a single balance sheet item. In the 2007 financial year, this item comprised some land and buildings held for sale and in particular 53 apartments of a hotel complex intended to be sold following refurbishment in 2008.

In the 2006 financial year, the material assets of Montreal Gateway Terminals in particular were defined as a disposal group. In addition, the minority share in Germanischer Lloyd AG held by Hapag-Lloyd and a hotel of the RIUSA II Group were carried assets held for sale as at the end of the previous financial year. All of these assets were sold in the course of the 2007 financial year.

(26) Subscribed capital

The subscribed capital of TUI AG consisted of no-par value shares, each representing an identical share in the capital stock. The proportionate share in the capital stock per no-par value share was around € 2.56. In July 2005, the previous bearer shares were converted to registered shares.

Group equity

€ million	Subscribed capital (26)	Capital reserves (27)	Other revenue reserves	Differences from currency translation	Revaluation reserves
Balance as at 31 Dec 2005	**641.0**	**2,385.0**	**1,594.8**	**- 393.8**	**21.9**
First-time application of IAS 23	–	–	5.7	–	–
Balance as at 1 Jan 2006	**641.0**	**2,385.0**	**1,600.5**	**- 393.8**	**21.9**
Dividend payments	–	–	- 189.0	–	–
Hybrid capital dividend	–	–	- 27.4	–	–
Issue of employee shares	0.7	4.1	–	–	–
Reclassification of conversion options	–	11.7	–	–	–
First-time consolidation	–	–	–	–	–
Deconsolidation	–	–	- 11.7	–	–
Effect of the acquisition of minority interests	–	–	- 0.9	–	–
Effect of option writer position from an option on minority interests	–	–	- 45.1	–	–
Income and expenses directly taken to equity before income tax	–	–	- 11.8	- 130.3	–
Tax items directly offset against equity	–	- 4.6	–	–	–
Group profit and loss for the year		–	- 890.3	–	–
Balance as at 31 Dec 2006	**641.7**	**2,396.2**	**424.3**	**- 524.1**	**21.9**
Changes in measurement and accounting methods	–	–	- 15.2	–	–
Balance as at 1 Jan 2007	**641.7**	**2,396.2**	**409.1**	**- 524.1**	**21.9**
Dividend payments	–	–	- 24.8	–	–
Hybrid capital dividend	–	–	- 25.9	–	–
Issue of convertible bond	–	119.7	–	–	–
Issue of employee shares	0.6	3.9	–	–	–
First-time consolidation	–	–	- 476.1	–	- 0.5
Effect of acquisitions achieved in stages	–	–		–	1.1
Effect of the acquisition of minority interests	–	–	- 23.2	–	–
Income and expenses directly taken to equity before income tax	–	–	175.7	- 77.8	–
Tax items directly offset against equity	–	- 47.9	- 51.9	–	–
Group profit and loss for the year	–	–	189.0	–	–
Balance as at 31 Dec 2007	**642.3**	**2,471.9**	**171.9**	**- 601.9**	**22.5**

[1] Income and expenses recognised directly in equity with no effect on results are shown separately in the statement of recognised income and expenses.

The subscribed capital of TUI AG, registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover, rose by € 0.6 million to a total of € 642.3 million due to the issuance of 225,720 employee shares. Subscribed capital thus comprised 251,245,575 shares (previous year: 251,019,855 shares) at the end of the financial year.

The Annual General meeting of 16 May 2007 authorised the Executive Board of TUI AG to purchase own shares of up to 10% of the subscribed capital. The authorisation will expire on 15 November 2008 and replaces the authorisation granted by the Annual General Meeting of 10 May 2006. To date, the possibility of acquiring own shares has not been used.

Revaluation reserve for financial instrument	Reserve according to IAS 19	Revenue reserves (28)	Hybrid capital (29)	Equity before minority interests	Minority interests (30)	Total
71.2	**- 510.3**	**783.8**	**294.8**	**4,104.6**	**262.2**	**4,366.8**
–	–	5.7	–	5.7	3.4	9.1
71.2	**- 510.3**	**789.5**	**294.8**	**4,110.3**	**265.6**	**4,375.9**
–	–	- 189.0	–	- 189.0	- 19.0	- 208.0
–	–	- 27.4	–	- 27.4	–	- 27.4
–	–	–	–	4.8	–	4.8
–	–	–	–	11.7	–	11.7
–	–	–	–	–	8.4	8.4
–	11.7	–	–	–	- 11.3	- 11.3
–	–	- 0.9	–	- 0.9	0.9	–
–	–	- 45.1	–	- 45.1	–	- 45.1
- 328.9	176.0	- 295.0	–	- 295.0	- 12.7	- 307.7
120.8	- 51.8	69.0	–	64.4	0.3	64.7
		- 890.3	–	- 890.3	46.9	- 843.4
- 136.9	**- 374.4**	**- 589.2**	**294.8**	**2,743.5**	**279.1**	**3,022.6**
–	–	- 15.2	–	- 15.2	–	- 15.2
- 136.9	**- 374.4**	**- 604.4**	**294.8**	**2,728.3**	**279.1**	**3,007.4**
–	–	- 24.8	–	- 24.8	- 7.1	- 31.9
–	–	- 25.9	–	- 25.9	–	- 25.9
–	–	–	–	119.7	–	119.7
–	–	–	–	4.5	–	4.5
33.6	173.8	- 269.2	–	- 269.2	- 10.6	- 279.8
–	–	1.1	–	1.1		1.1
–	–	- 23.2	–	- 23.2	- 0.4	- 23.6
44.1	153.6	295.6	–	295.6	- 10.9	284.7
5.3	- 73.8	- 120.4	–	- 168.3	–	- 168.3
		189.0	–	189.0	47.3	236.3
- 53.9	**- 120.8**	**- 582.2**	**294.8**	**2,826.8**	**297.4**	**3,124.2**

Conditional capital

The Annual General Meeting of 18 June 2003 adopted a resolution creating conditional capital of € 90.0 million. The conditional capital was intended to service conversion options and warrants from the issue of one or several bonds with a total par value of up to € 1.0 billion by 17 June 2008. Convertible bonds totalling around € 384.6 million were issued in October 2003. The conversion options entitled the holders to convert each convertible bond of a par value of € 50,000.00 into 2,520 shares in TUI AG. This far, the holders of the convertible bonds have not yet exercised any conversion rights.

In order to retain the possibility of issuing bonds, the Annual General Meeting of 10 May 2006 adopted a resolution creating further conditional capital of € 100.0 million. Accordingly, bonds with conversion options and warrants as well as profit-sharing rights and income bonds with a total par value of up to € 1.0 billion (with and without fixed terms) may be issued by 9 May 2011. The corresponding resolution by the Annual General Meeting of 18 May 2004 on the creation of conditional capital of € 70.0 million was cancelled.

On 1 June 2007, TUI AG issued an unsecured non-subordinate convertible bond of € 694.0 million maturing on 1 September 2012. The conversion price was € 27,68 per no-par value share. The bonds were issued in denominations of € 50,000.00. The convertible bond may be converted into a maximum of 25,072,254 shares. The bonds carry an interest coupon of 2.75% per annum and were issued at par. The bonds are traded at two German stock exchanges, in Luxemburg and Zurich. By 31 December 2007, no conversions had been effected under the bond.

Authorised capital

At the end of the 2006 financial year, the authorised capital of € 10.0 million created at the Annual General Meeting of 18 May 2004 for the issuance of employee shares stood at € 7.3 million. The authorised capital was partly used in the 2007 financial year to issue 225,720 employee shares (previous year: 287,280 shares). The remaining authorised capital for the issuance of employee shares thus stood at € 6.7 million at the end of the 2007 financial year. The Executive Board of TUI AG has been authorised to use this capital until 17 May 2009.

In addition to the authorised capital for the issuance of employee shares, the Annual General Meeting of 10 May 2006 resolved to create authorised capital for the issuance of new shares against cash or non-cash contribution totalling € 310.0 million. The issue of new shares against non-cash contribution was limited to € 128.0 million. The Executive Board of TUI AG has been authorised to use this capital until 9 May 2011.

Including the remaining authorised capital for the issuance of employee shares, total unused authorised capital amounted to € 316.7 million.

(27) Capital reserves

The capital reserves mainly comprised transfers of premiums from the issue of shares and amounts generated by issuing bonds for conversion options and warrants to purchase shares in TUI AG where the conversion options and warrants had to be classified as equity instruments in accordance with IAS 32. Premiums from the issue of shares due to the exercise of conversion options and warrants were also transferred to the capital reserves. The funding costs for the issue of conversion options and warrants and for the capital increase by means of the issue of new shares against

cash contribution were eliminated against the transfers to the capital reserves resulting from these transactions.

The 2007/2012 convertible bond issued in the 2007 financial year had to be classified as an equity instrument pursuant to IAS 32, resulting in an increase in capital reserves of € 71.8 million.

Capital reserves rose by € 3.9 million (previous year: € 4.1 million) due to the issue of employee shares.

(28) Revenue reserves

Other revenue reserves comprised transfers from the results of the current or previous financial years as well as eliminations of goodwill from capital consolidation and at equity measurement of subsidiaries purchased until 30 September 1995.

Furthermore, adjustments with no effect on results from the first-time application of new or revised accounting standards and effects of changes in accounting and measurement methods were transferred to or eliminated against other revenue reserves.

The merger of the TUI Group's tourism activities with the First Choice Holidays Group caused an increase in the equity with no effect on profit and loss due to the disclosure of the added value from the disposal of 48.405% of the share in this TUI tourism division.

The disclosure of the hidden reserves and liabilities in accordance with IFRS 3 led to negative equity of the First Choice Holidays Group at the date of first-time consolidation, 48.405% of which related to minorities. The minority shareholders also participate in TUI AG's compensation claim arising from the merger agreements in proportion to their share in TUI Travel PLC. The share in negative equity of TUI Travel PLC's minority shareholders which mainly resulted from these effects and from currency differences was eliminated against revenue reserves (€ - 516.5 million) in accordance with IAS 27.35.

In accordance with section 58 sub-section 2 of the German Stock Corporation Act, dividend payments to TUI AG shareholders were based on net profit available for distribution of the commercial-law financial statements of TUI AG. The Executive Board and Supervisory Board propose that the profit available for distribution of € 87.6 million be used to pay a dividend of € 0.25 per no-par value share and to carry the amount remaining after deduction of the dividend total of € 62.8 million forward on new account.

Differences arising from currency translation comprised differences from the currency translation of the financial statements of foreign subsidiaries as well as differences from the translation of goodwill denominated in a foreign currency.

The revaluation reserve was formed in the framework of successive acquisitions of companies. At the date of first-time consolidation, the changes in the fair values of the assets and liabilities of the acquired company arising in between the acquisition dates were recognised in the revaluation reserve with no effect on profit and loss based on the interest held prior to first-time consolidation. In the framework of deconsolidation, the revaluation reserves were eliminated against other revenue reserves.

The revaluation reserve for financial assets comprised the portion of gains and losses from hedges which was determined as an effective hedge of future cash flows. When a hedged item had an effect on results or was no longer assessed as probable, the revaluation reserve for financial assets was reversed through profit and loss in the same period.

The reserve according to IAS 19 comprised profits and losses from changes in actuarial parameters in connection with the measurement of pension obligations and the related fund assets, carried outside profit and loss.

In the 2007 financial year, the increase in the long-term interest rate level in Germany and the UK was the main reason for a reduction in pension obligations and the related increase in the reserve according to IAS 19. Additionally, in a first step revenue reserves have been credited € 173.8 million by charging this amount to minority interest and in a second step as a consequences of the totaling negative minority interest this amount has been offset with other revenue reserves. The reserve stood at € 120.7 million (previous year: € - 374.4 million) at the end of the financial year under review.

(29) Hybrid capital

In accordance with IAS 32, the subordinated hybrid capital issued by TUI AG in December 2005 with a nominal volume of € 300.0 million represented Group equity. The capital procurement costs of € 8.5 million were deducted from the hybrid capital with no effect on profit and loss, taking account of deferred income taxes. Dividend payment entitlements of hybrid capital investors were deferred as other financial liabilities until the payment date.

(30) Minority interests

Minority interests mainly related to companies of the TUI Hotels & Resorts division, in particular the RIUSA II Group. The negative minority interests in TUI Travel PLC have been eleminated against revenue reserves.

(31) Pension provisions and similar obligations

A number of pension schemes based on defined contribution plans or defined benefit plans were provided for Group employees. Pension obligations varied according to the legal, fiscal and economic circumstances of the country concerned and usually depended on employees' length of service and pay levels. While all defined contribution plans were funded by means of the payment of premiums to external insurance companies or funds, systems existed for defined benefit plans entailing the formation of provisions within the Company or investments in funds outside the Company.

German employees enjoyed benefits from a statutory defined contribution plan paying pensions as a function of employees' income and the contributions paid in. Several other industry pension organisations existed for companies of the TUI Group. Once the contributions to the state and private pension insurance institutions had been paid, the Company had no further obligations. Current contribution payments were recognised as an expense for the respective period. In the 2007 financial year, the pension costs for all defined contribution plans for the TUI Group totalled € 73.1 million (previous year: € 77.9 million). The pension costs for defined benefit pension commitments totalled € 83.8 million (previous year: € 80.3 million).

Pension costs for defined benefit obligations

€ million	2007	2006
Current service cost for employee service in the financial year	55.9	62.4
Interest cost	121.4	118.9
Expected return on external plan assets	93.6	86.5
Past service cost due to plan changes	0.1	- 12.7
Effects of curtailment or settlement of pension obligations	0.0	- 1.8
Total	**83.8**	**80.3**

The decline in the current service cost for employee service in the 2007 financial year mainly resulted from changes in the TUI Northern Europe sector.

The increase in interest cost primarily resulted from the first-time consolidation of the First Choice Holidays Group. The current service cost of this group totalled € 1.1 million, its interest cost was € 1.6 million and the expected return on external plan assets amounted to € 1.9 million. The remaining increase in expected return on external plan assets resulted from a year-on-year increase in the market value of fund assets of the remaining companies, primarily the companies of the TUI Northern Europe sector.

Only a minor past service cost had to be taken into account, whereas the previous year's figures had been strongly characterised by one-off effects due to an amendment of a law in the UK.

Provisions for pension obligations were established for benefits payable in the form of retirement, invalidity and surviving dependants' benefits. Provisions were exclusively formed for defined benefit schemes under which the Company guarantees employees a specific pension level. Provisions for similar obligations covered in particular early retirement and temporary assistance benefits.

Development of provisions for pensions and similar obligations

€ million	Balance as at 31 Dec 2006	Changes in consoli-dation[1]	Changes with no effect on results	Utilisation	Reversal	Addition	Balance as at 31 Dec 2007
Provisions for pensions	1,078.8	- 17.0	- 195.4	61.8	3.8	49.0	849.8
Similar obligations	6.3	- 0.2	0.0	0.4	0.0	1.4	7.1
Total	**1,085.1**	**- 17.2**	**- 195.4**	**62.2**	**3.8**	**50.4**	**856.9**

[1] as well as transfers and exchange differences

The actuarial gains and losses arisen in the 2007 financial year were eliminated against equity with no effect on profit and loss, causing the indicated change in pension provisions outside profit and loss.

Where the defined benefit pension obligations were not financed by provisions, they were funded externally. This type of funding of pension obligations prevailed to a considerable extent in the Northern Europe sector in TUI UK and Thomsonfly UK. Furthermore, funded pension obligation systems were operated by foreign container shipping companies and by companies in Switzerland and in the Netherlands as well as the First Choice Holidays Group.

While the fund assets were determined on the basis of the fair values of invested funds as at 31 December 2007, pension obligations were measured on the basis of

actuarial calculations and assumptions. The obligations under defined benefit plans were calculated on the basis of the internationally accepted projected unit credit method, taking account of expected future increases in salaries and pensions.

Actuarial parameters for German companies

Percentage p. a.	2007	2006
Discount rate	5.5	4.5
Projected future salary increases	2.0 – 2.5	2.0 – 2.5
Projected future pension increases	1.5 – 1.83	1.5 – 1.83
Projected employee turnover rate	2.0	2.0

Actuarial calculations for companies abroad were based on specific parameters for each country concerned.

Actuarial assumptions for foreign companies

			2007			2006
Percentage p. a.	Discount rate	Projected return on plan assets	Projected future salary increases	Discount rate	Projected return on plan assets	Projected future salary increases
Eurozone	5.5	4.25 – 6.0	0.0 – 4.5	4.5	4.25 – 6.0	0.0 – 4.5
UK	5.6 – 5.8	5.1 – 7.42	4.5 – 5.0	5.0 – 5.2	4.55 – 7.4	3.4 – 4.6
Rest of Europe	3.25	2.5	1.5 – 2.0	3.25	4.0	1.5 – 2.0
North America	5.25 – 6.0	5.0 – 6.0	3.5 – 5.0	4.75 – 5.75	5.0 – 6.0	3.5 – 5.0
South America	9.0	9.0	4.5 – 6.5	9.0	9.0	5.0
Asia	2.2 – 8.5	0.0 – 6.0	1.5 – 10.0	2.3 – 3.75	1.5 – 2.75	1.5 – 3.0

Development of the projected benefit obligation

€ million	2007	2006
Net present value of actual pension obligations at beginning of year	**2,470.2**	**2,503.9**
Additions to the group of consolidated companies	119.9	24.3
Disposals from the group of consolidated companies	–	31.6
Current pension obligations	55.9	62.4
Interest cost	121.4	118.9
Pensions paid	- 110.5	- 105.5
Contributions paid by pension beneficiaries	11.2	11.6
Actuarial gains (-) and losses (+)	- 214.9	- 148.3
Past service benefits	–	- 10.9
Exchange differences	- 158.1	35.4
Other	+ 0.4	10.0
Net present value of actual pension obligations at year-end	**2,295.5**	**2,470.2**

In the framework of the first-time consolidation of the First Choice group, pension obligations rose by € 119.9 million. A decline in pension obligations due to removals of companies from the group of consolidated companies was not recorded in the financial year under review.

The increase in pension obligations due to the additions to the group of consolidated companies was more than offset in particular by the development of actuarial gains and losses, primarily determined by a higher discount rate applicable under IFRS rules.

The exchange differences shown for the 2007 financial year mainly resulted from the translation of British pounds sterling into euros.

Development of the fair value of fund assets

€ million	2007	2006
Fair value of fund assets at beginning of year	**1,398.4**	**1,218.5**
Additions to the group of consolidated companies	111.1	–
Disposals from the group of consolidated companies	–	–
Expected return on external plan assets (-)	- 93.6	- 86.5
Actuarial gains (-) / losses (+) of the current year	19.5	- 38.0
Exchange differences	- 120.6	23.1
Employer's contributions paid in	70.3	74.8
Contributions paid by the beneficiary of the plan	11.0	11.6
Pensions paid	- 75.9	- 70.0
Other	2.7	15.9
Fair value of fund assets at year-end	**1,471.1**	**1,398.4**
of which dividend-carrying securities	851.2	944.9
of which bonds	484.4	323.5
of which property, plant and equipment	10.6	1.1
of which cash	82.6	75.0
of which other	42.3	53.9

Assets rose by € 111.1 million due to the addition of the First Choice Holidays Group. Fund assets did not decline due to removals from the group of consolidated companies in the financial year under review.

The assumptions used in determining the expected return on external fund assets were based on the actual fund structure and were oriented to the future long-term returns for the individual fund categories. Further factors taken into account were the current interest level and the inflation trend. The TUI Group's calculation of the pension costs was based on conservative forecasts in determining the expected return on the fund assets. Nevertheless, unlike in 2006, the funds did not generate the expected returns in the 2007 financial year so that an actuarial loss arose on fund assets. At expected returns of € 93.6 million (previous year: € 86.5 million) the fund assets gained actual returns of € 74.1 million (previous year: € 124.5 million).

The exchange differences shown for the 2007 financial year mainly resulted from the translation of British pounds sterling into euros.

For the subsequent 2008 financial year, the companies of the TUI Group are expected to contribute around € 120.5 million to pension funds. The significant increase in contributions in comparison with contributions paid in 2007 results from a planned reduction in the pension deficit in the UK.

Reconciliation from the projected benefit obligation to pension liabilities recognised in the balance sheet

€ million			31 Dec 2007			31 Dec 2006
	Plans with obligation in excess of assets	Plans with assets in excess of assets	Total	Plans with obligation in excess of assets	Plans with assets in excess of assets	Total
Actual projected benefit of fully or partly funded pension obligations	1,717.2	106.2	1,823.4	1,809.9	123.9	1,933.8
Fair value of external plan assets	1,337.9	133.2	1,471.1	1,265.7	132.7	1,398.4
Deficit respectively surplus	**379.3**	**- 27.0**	**352.3**	**544.2**	**- 8.8**	**535.4**
Actual present value of non-funded pension obligations			472.1			536.4
Net projected benefit obligation			**824.4**			**1,071.8**
Adjustment for past service cost			- 1.6			- 1.8
Net recognised liability			**822.8**			**1,070.0**
of which provisions for pensions for non-funded obligations			470.5			534.6
of which provisions for pensions for funded obligations			379.3			544.2
of which capitalised assets			- 27.0			- 8.8

Since the TUI Group used the option of immediately offsetting the actuarial gains and losses against equity in the year in which they arose, the TUI Group's total pension obligations were fully shown in the balance sheet, netted against existing fund assets. There was only a difference of € 1.6 million due to past service cost that was not yet recognised in the balance sheet. This off-balance difference will be charged to expenses and successively amortised in the upcoming financial years.

Where plan assets exceeded obligations with regard to funded pension obligations, taking account of an adjustment due to past service cost, and where at the same time there was an entitlement to reimbursement or reduction of future contribution payments to the fund, the excess was capitalised in conformity with the upper limit defined by IAS 19.

Year-on-year comparison of the key amounts related to pension obligations

€ million	2007	2006	2005	2004
Projected benefit obligations at year-end	2,295.5	2,470.2	2,503.9	2,003.8
Fund assets at year-end	1,471.1	1,398.4	1,218.5	972.5
Surplus (+) respectively deficit (-) at year-end	352.3	535.4	742.6	478.7
Actuarial gains (-) / losses (+) of the current year from the obligations	- 214.9	- 148.3	403.3	51.8
Actuarial gains (-) / losses (+) of the current year from the fund assets	19.5	- 38.0	- 109.9	- 23.6

As at 31 December 2007, the actuarial gains and losses before deferred income taxes recorded by then and eliminated against equity with no effect on profit and loss totalled € - 311.3 million (previous year: € - 540.2 million).

(32) Income tax provisions and other provisions

Development of provisions in the 2007 financial year

€ million	Balance as at 31 Dec 2006	Changes in the group of consolidated companies[1]	Usage	Reversal	Addition	Balance as at 31 Dec 2007
Provisions for current income tax	264.8	25.1	37.2	17.0	82.9	318.6
Provisions for deferred tax	57.6	172.7	–	–	15.2	245.5
Income tax provisions	**322.4**	**197.8**	**37.2**	**17.0**	**98.1**	**564.1**
Personnel costs	308.7	- 22.3	171.6	20.8	139.3	233.3
Specific operating risks	56.6	27.9	2.6	42.0	15.1	55.0
Maintenance provisions	136.3	56.6	92.1	0.0	129.1	229.9
Risks from pending transactions	54.5	-1.0	23.6	0.9	13.8	42.8
Guarantee and liability risks	90.8	4.2	8.0	24.7	15.0	77.3
Provisions for other taxes	48.5	- 19.1	1.4	0.7	10.7	38.0
Miscellaneous provisions	337.8	16.5	113.2	48.2	152.3	345.2
Other provisions	**1,033.2**	**62.8**	**412.5**	**137.3**	**475.3**	**1,021.5**
Total	**1,355.6**	**260.6**	**449.7**	**154.3**	**573.4**	**1,585.6**

[1] as well as transfers and exchange differences

Income tax provisions

Income tax provisions comprised provisions for current and deferred income taxes, outlined in note 22. The net change in deferred tax provisions between the balance sheet dates was fully shown as an addition in the above table.

Other provisions

Other provisions comprised provisions for personnel costs, specific operating risks, maintenance provisions, risks from pending transactions, guarantee and liability risks, provisions for other taxes and miscellaneous provisions.

Provisions for personnel costs comprised provisions for vacation, unpaid bonus payments, severance compensation and jubilee benefits.

In addition, the provisions for personnel costs also comprised provisions for share-based payment schemes with cash compensation according to IFRS 2.

In the framework of the long-term incentive programme, the Executive Board members as well as further executive staff were granted a bonus for the 2006 financial year, translated into phantom stocks in TUI AG on the basis of an average share price. The phantom shares were calculated on the basis of Group earnings before taxes and amortisation of goodwill (EBTA). The translation into phantom shares was based on the average stock price of the TUI share on the 20 trading days following the Supervisory Board meeting at which the annual financial statements were approved. The number of phantom stocks granted in a financial year is therefore only determined in the subsequent year. Following a lock-up period of two years, the individual Board members are free to exercise their right to cash payment from this bonus within predetermined timeframes. This lock-up period is not applicable if a Board member leaves the Company. The payment level depended on the average stock price of the TUI share over a period of 20 trading days after the exercise date. There were no absolute or relative return or stock price targets. A cap was agreed for exceptional, unforeseen developments. Since the strike price was € 0 and the incentive programme did not entail a vesting period, the fair value corresponded to the intrinsic value and hence the market price at the balance sheet date. Accordingly,

the fair value of the obligation was determined by multiplying the number of phantom shares with the stock price at the respective reporting date.

Development of phantom shares

	Number	Present value in € million
31 Dec 2005	**710,007**	**12.3**
Phantom shares granted	239,638	4.4
Phantom shares exercised	185,116	- 2.9
Measurement results	–	- 2.2
31 Dec 2006	**764,529**	**11.6**
Phantom shares granted	19,447	0.4
Phantom shares exercised	152,055	- 2.9
Measurement results	–	3.0
31 Dec 2007	**631,921**	**12.1**

Fifty percent of the share-based payment schemes with cash compensation in accordance with IFRS 2, which had existed in the Northern Europe sector in 2006, were transferred to newly formed TUI Travel PLC in the wake of the merger between TUI's tourism division and the First Choice Holidays Group and replaced by the share-based payment schemes of TUI Travel PLC. The remaining 50% of the entitlements under these share-based payment schemes were paid in cash, resulting in a payment of the equivalent of € 8.1 million (GBP 5.5 million). Until the date of transfer to TUI Travel PLC, the expenses of € 2.2 million (GBP 1.5 million) have been included in the profit and loss statement. Entitlements under share-based payment schemes for executive staff of the former First Choice Holidays Group were also transferred to TUI Travel PLC.

The TUI Travel PLC Group has established two principal share award schemes linking employee remuneration to the future performance of the Group: the Deferred Annual Bonus Scheme (DABS) and the Performance Share Plan (PSP).

Awards granted and outstanding as well as shares granted and outstanding

	Number of shares	Option exercise price	Date first exercisable
Deferred Annual Bonus Scheme (DABS)	894,426	–	14 Dec 08
	793,149	–	14 Dec 08
	79,292	–	19 Jun 09
	445,977	–	13 Feb 10
	1,264,300	–	13 Feb 10
	1,586,287	–	13 Feb 10
	2,215,297	–	13 Sep 10
	659,869	–	19 Dec 10
	3,147,700	–	19 Dec 10
Performance Share Plan (PSP)	597,782	–	14 Dec 08
	846,090	–	13 Feb 10
	2,859,735	–	19 Dec 10
Total	**15,389,904**		

As at 31 December 2007, there were 4,400,454 shares held by the First Choice Employee Benefit Trust. As at the same date there were 4,400,000 shares held by the TUI Travel Employee Benefit Trust.

Development of the number of share options

	Number
Outstanding at beginning of the year	–
Addition in the wake of the merger with First Choice Holidays Group on 3 September 2007	4,129,192
Expired during the year	–
Exercised during the year	–
Issued during the year	11,260,712
31 Dec 2007	**15,389,904**

None of the instruments or options granted were exercisable at the end of the financial year.

The fair value of services received in return for share options granted was measured by reference to the fair value of share options granted. The estimate of fair value of services received was measured using binomial or simulation valuation models, depending on the vesting criteria. The following variables were built into these models at the date of granting of the options:

Information relating to fair values of share options and awards granted

		2007
	GBP	€
Principal share award schemes (DABS und PSP)		
Fair value at measurement date (in € million)	1.75 – 2.71	2.5 – 3.8
Share price	2.70 – 2.91	3.83 – 4.13
Exercise price	0.0	–
Expected volatility	28.3% – 30.4%	–
Option life	1 – 3 years	–
Expected dividends	4.0%	–
Risk-free interest rate	4.52% – 5.28%	–

Expected volatility was based on historic volatility of First Choice Holidays PLC adjusted for changes to future volatility indicated by publicly available information. Share options were granted under a service condition.

In the 2007 financial year, a personnel cost of GBP 2.0 million (€ 2.8 million) related to share-based payment schemes was registered in the profit and loss statement.

Future estimated expense for share award schemes outstanding at the balance sheet date (as at 31 Dec 2007)

	GBP	€
Expenses during next financial year	15.0	21.3
Expenses falling due after more than one year	16.3	23.1
Total	**31.3**	**44.4**

In order to reduce production costs in tourism, the Group's Executive Board adopted a programme in 2006 aimed at significantly reducing in particular personnel costs and related cost of materials. Where the individual measures were sufficiently specific and a factual obligation for restructuring existed, corresponding provisions were formed. These were primarily provisions for personnel costs related to planned personnel reductions and other provisions due to the early termination of rental and lease agreements. In the 2007 financial year, the restructuring measures resulted in

total expenses of € 62.5 million. The provisions of € 95.8 million formed as at the end of the 2006 financial year, primarily for personnel cost, were largely used in 2007, in line with plans. As at the balance sheet date, provisions of around € 41 million were carried, half of which related to personnel cost and the other half related to rental obligations.

Following the successful integration of the CP Ships Group, the shipping division only held minor restructuring provisions based on long-term non-cancellable rental obligations at the end of the financial year. The provisions of € 34.8 million carried at the end of 2006 were used in the 2007 financial year to a great extend. Overall, restructuring income of € 1.1 million was generated in the financial year under review.

The maintenance provisions, shown separately for the first time in the 2007 financial year, comprised provisions for maintenance work on leased aircraft. The increase was mainly due to the first-time consolidation of the First Choice Group.

Provisions for specific operating risks were retained almost unchanged. The effect of the first-time consolidation of the First Choice Group was offset by the utilisation and reveral of provisions for stabilising and restoration measures for the former mining activities by € 22 million to around € 16 million. These provisions included an amount of € 15.0 million (previous year: € 30.5 million) for necessary environmental protection measures.

The provision for risks from onerous contracts was primarily formed for hotel capacity already contracted but not expected to be fully utilised.

The provision formed in previous years due to the insolvency of Babcock Borsig AG for risks from the anticipated utilisation of guarantees and warranties granted in previous years for the former plant engineering activities was largely reversed as a result of the scheduled reduction in the guarantee volume due to lapse of time. In addition, provisions for guarantee, warranty and liability risks in the shipping division mainly comprised maintenance obligations in connection with leased containers and obligations to pay for uninsured damage to cargo.

In the framework of the completed realignment of the Group, other provisions comprised provisions formed in connection with the settlement of contracts concluded in the former energy, trading and special logistics sectors.

Where the difference between the present value and the settlement value of a provision was material for the measurement of a non-current provision as at the balance sheet date, the provision had to be recognised at its present value in accordance with IAS 37. The discount rate to be applied should take account of the specific risks of the provision and of future price increases. This criterion applied to some items contained in the TUI Group's other provisions. Transfers to other provisions comprised an interest portion of € 6.9 million (previous year: € 4.2 million), recognised as interest costs. The largest portion related to additions to provisions for maintenance.

Terms to maturity of income tax provisions and other provisions

	31 Dec 2007		31 Dec 2006	
€ million	Remaining term of more than 1 year	Total	Remaining term of more than 1 year	Total restated
Provisions for current income taxes	256.3	318.6	177.0	264.8
Provisions for deferred taxes	214.4	245.5	49.5	57.6
Income tax provisions	**470.7**	**564.1**	**226.5**	**322.4**
Personnel costs	74.6	233.3	96.2	308.7
Specific operating risks	16.6	55.0	39.7	56.6
Maintenance provisions	158.3	229.9	65.9	136.3
Risks from pending transactions	14.6	42.8	18.4	54.5
Guarantee and liability risks	48.1	77.3	52.4	90.8
Provisions for other taxes	21.7	38.0	19.8	48.5
Miscellaneous provisions	156.0	345.2	143.1	337.8
Other provisions	**489.9**	**1,021.5**	**435.5**	**1,033.2**
Total	**960.6**	**1,585.6**	**662.0**	**1,355.6**

Provisions for deferred taxes had to be carried as non-current provisions in the balance sheet, irrespective of the expected realisation date.

(33) Financial liabilities

Financial liabilities

	31 Dec 2007				31 Dec 2006	
		Remaining terms				
€ million	up to 1 year	more than 1-5 years	more than 5 years	Total	Total	Remaining term of more than 1 year
Convertible bonds	373.4	572.7	–	946.1	362.1	362.1
Other bonds	–	1,998.6	–	1,998.6	1,991.1	1,991.1
Liabilities to banks	274.6	1,604.2	281.0	2,159.8	1,042.4	791.1
Liabilities from finance leases	24.1	210.0	22.3	256.4	291.1	263.0
Financial liabilities due to non-consolidated Group companies	24.8	–	–	24.8	35.8	2.1
Financial liabilities due to affiliates	3.1	–	–	3.1	6.3	–
Other financial liabilities	107.4	15.3	28.7	151.4	170.8	68.2
Total	**807.4**	**4 400.8**	**332.0**	**5,540.2**	**3,899.6**	**3,477.6**

Fair values and carrying amounts of the bonds issued (31 Dec 2007)

				Fair values[1]		
€ million	**Volume**		**Interest rate % p. a.**	of debt component	conversion options	Total	**Carrying amount**
2003/08 convertible bond	384.6		4.000	372.9	36.7	409.6	373.4
2007/12 convertible bond	694.0		2.750	533.4	119.0	652.4	572.7
2004/09 bond	400.0	3M EURIBOR plus	2.100	403.4		403.4	397.8
2005/10 bond	550.0	3M EURIBOR plus	1.550	512.3		512.3	543.0
2004/11 bond	625.0		6.625	625.0		625.0	615.1
2005/12 bond	450.0		5.125	396.5		396.5	442.7
2005/-- hybrid capital	300.0	until January 2013 subsequently 3M EURIBOR plus	8.625 7.300	299.3		299.3	294.8

[1] Stock market values

In accordance with the rules of IAS 32, the subordinated hybrid capital issued in December 2005 without a fixed term to maturity was not carried as a bond but was shown as a separate Group equity item.

Convertible bonds comprised the 2003/2008 convertible bond of € 384.6 million issued in November 2003 and the 2007/2012 convertible bond of € 694 million issued on 1 June 2007. The convertible bonds will mature on 1 December 2008 and 1 September 2012, respectively, and carry nominal interest coupons of 4.0% p. a. and 2.75% p. a., respectively. With the 2003/2008 convertible bond, each convertible bond of a par value of € 50,000.00 entitled the holder to convert it into 2,520 shares at a conversion price of around € 19.84 per share any time until 17 November 2008. With the 2007/2012 convertible bond, each convertible bond of a par value of € 50,000.00 entitled the holder to convert it into 1,806 shares any time between 12 July 2007 and the seventh business day before the redemption date at a conversion price of € 27.86 per share.

The debt component of the convertible bond was carried at the issue date at its present value based on an interest rate in line with market conditions and was increased by the interest portion of the period as at the balance sheet date in accordance with the internationally accepted effective interest method.

Other bonds comprised bonds with a total nominal volume of € 2,025.0 million.

In the 2004 financial year, two bonds totalling € 1,025.0 million were issued in the framework of the long-term refinancing of the Group. The bond worth € 625.0 million, issued in May 2004 and maturing in May 2011, carried a nominal fixed-interest coupon of 6.625%. The bond worth € 400.0 million issued in June 2004 entailed a floating interest rate (3-month-EURIBOR + 2.10%). This instrument will mature in August 2009. Both bonds had denominations of € 1,000.00.

In order to finance the acquisition of CP Ships, two further bonds with an aggregate volume of € 1,000.0 million were issued by TUI AG in December 2005. The fixed-interest bond of € 450.0 million, carrying a nominal interest rate of 5.125%, will mature in December 2012. The remaining bond volume of € 550.0 million was a floating-rate bond (3-month-EURIBOR + 1.55%) maturing in December 2010. The bonds, issued in the 2005 financial year, had denominations of € 1,000.00.

(34) Trade accounts payable

Trade accounts payable

€ million	**31 Dec 2007**	**31 Dec 2006**
To third parties	2,652.4	1,935.1
To non-consolidated Group companies	4.8	10.2
To affiliates	21.8	13.1
Total	**2,679.0**	**1,958.4**

(35) Derivative financial instruments

Derivative financial instruments

	31 Dec 2007				31 Dec 2006	
	Remaining terms					
€ million	up to 1 year	more than 1-5 years	more than 5 years	Total	Total	Remaining term of more than 1 year
Liabilities from derivative financial instruments	174.4	115.5	10.9	300.8	143.2	27.0

Derivative financial instruments were carried at their fair value (market value). They primarily served to hedge the future operating business and are outlined in detail in the explanations on financial instruments.

(36) Other liabilities

Other liabilities

€ million				31 Dec 2007		31 Dec 2006
		Remaining terms				
	up to 1 year	more than 1-5 years	more than 5 years	Total	Total	Remaining term of more than 1 year
Other liabilities due to non-consolidated Group companies	3.3	–	–	3.3	5.6	–
Other liabilities due to affiliates	2.0	–	–	2.0	4.3	–
Other miscellaneous liabilities	145.8	94.4	0.1	240.3	164.6	15.7
Other liabilities from income taxes	6.5	–	–	6.5	4.0	–
Other liabilities relating to other taxes	34.6	0.4	0.1	35.1	38.0	–
Other liabilities relating to social security	57.8	2.3	–	60.1	43.0	0.1
Other liabilities relating to employees	25.8	–	0.1	25.9	21.2	0.1
Other liabilities relating to members of the Boards	2.4	–	–	2.4	3.9	–
Advance payments received	1,767.8	0.2	–	1,768.0	1,262.6	0.4
Other liabilities	**2,046.0**	**97.3**	**0.3**	**2,143.6**	**1,547.2**	**16.3**
Deferred income	**41.1**	**28.8**	**4.0**	**73.9**	**31.8**	**12.0**
Total	**2,087.1**	**126.1**	**4.3**	**2,217.5**	**1,579.0**	**28.3**

Deferred income included government grants paid to promote investments and not directly allocable to individual asset items (investment grants) of € 0.4 million (previous year: € 0.4 million).

(37) Liabilities relating to assets held for sale

In the 2006 financial year, this balance sheet item comprised liabilities and provisions of discontinuing operations and other disposal groups of € 2.1 million.

(38) Contingent liabilities

Contingent liabilities

€ million	31 Dec 2007	31 Dec 2006
Liabilities under guarantees, bill and cheque guarantees due to non-consolidated Group companies	7.0	15.8
Other liabilities under guarantees, bill and cheque guarantees	59.6	196.1
Other liabilities under warranties	4.1	1.6
Contingent liabilities related to the provision of collateral for third-party liabilities	0.0	0.1
Total	**70.7**	**213.6**

Contingent liabilities were carried at an amount representing the best estimate of the expenditure that would be required to meet the present obligation as at the balance sheet date.

Liabilities under warranties were all contractual liabilities to third parties not to be classified as guarantees and going beyond the typical scope of the business and the industry.

In connection with the insolvency of Babcock Borsig AG, provisions were formed in previous years to fully cover the guarantees and warranties related to activities in the former plant engineering sector which were likely to be called in. All remaining guarantees and warranties from former plant engineering and shipbuilding activities served the settlement of ongoing business transactions and were shown at their respective amounts at the balance sheet date. The reduction in guarantees and warranties caused a corresponding decrease in the relevant amount in the year under review.

The TUI Group companies were jointly and severally liable for participations in civil-law partnerships for which profit and loss transfer agreements with subsidiaries existed, for participations in joint ventures and participations in partnerships as general partner.

(39) Litigation

Neither TUI AG nor any of its subsidiaries were involved in pending or foreseeable court or arbitration proceedings which might have a significant impact on its economic position or had such an impact in the past two years, nor were any such proceedings foreseeable. This also applied to actions claiming warranty, repayment or any other compensation brought forward in connection with the divestment of subsidiaries and sectors made over the past few years. The action submitted by the insolvency trustee of Babcock Borsig AG (in insolvency) in 2004 has meanwhile been dismissed by the regional court of first instance in Frankfurt/Main. Since the action is expected to also be dismissed by the court of second instance, the provision formed in this regard only covered an amount representing the anticipated non-refundable cost of the proceedings, as before.

In 1999, the operator of the container terminal in Zeebrugge in Belgium brought an action for damages against CP Ships Ltd. and several of its subsidiaries due to an alleged breach of agreement in connection with the change of the Belgian port of call from Zeebrugge to Antwerp. Furthermore, seven shareholder class actions were brought against CP Ships in the US and a further three in Canada due to alleged irregularities in the reporting by the CP Ships Group in connection with the adjustments of the financial statements in 2004, which resulted in particular in the reduction in profits for the first quarter of 2004 and for the preceding years 2002 and 2003. Based on the findings and assessments currently available, the prerequisites for the recognition of obligations are not met in either of the two pending cases. In the framework of purchase price allocation as at 25 October of 2007, these two actions were treated and carried as contingent liabilities at an amount of 58.8 million US dollars. Since potential entitlements to reimbursements under insurance contracts and other contracts were not assessed as highly probable, no such claims were carried.

As in previous years, the respective Group companies had formed adequate provisions, partly covered by expected insurance benefits, to cover all potential financial charges from court or arbitration proceedings. Overall, the future financial position is therefore unlikely to be substantially affected by such charges.

(40) Other financial commitments

Nominal values of other financial commitments

€ million				31 Dec 2007		31 Dec 2006
		Remaining terms				Remaining
	up to 1 year	more than 1-5 years	more than 5 years	Total	Total	term of more than 1 year
Order commitments in respect of capital expenditure	576.6	2,654.9	219.9	3,451.4	3,139.9	2,439.7
Other financial commitments	185.0	499.4	9.8	694.2	713.7	488.1
Total	**761.6**	**3,154.3**	**229.7**	**4,145.6**	**3,853.6**	**2,927.8**
Fair value	**721.9**	**2,686.2**	**149.7**	**3,557.8**	**3,353.9**	**2,468.0**

The fair value of other financial commitments was determined by means of discounting future expenses on the basis of a customary market interest rate of 5.5% p. a. (previous year: 4.5% p. a.). If the previous year's interest rate of 4.5% had been applied, the fair value would have been € 96.7 million higher.

The increase of € 311.5 million in nominal order commitments in respect of capital expenditure was attributable to the aggregate effect of the first-time consolidation of the First Choice Holidays Group and the reduction in order commitments due to deliveries of aircraft and container ships in the financial year under review.

Other financial commitments mainly comprised amounts for commitments from orders already placed, clean-up and renovation obligations, payment obligations and liability obligations in connection with participations.

Order commitments in respect of tourism services will no longer be shown as of the 2007 financial year, in line with customary industry practices. The previous year's values were restated accordingly.

Financial commitments from operating lease, rental and charter contracts

	31 Dec 2007					31 Dec 2006	
	Remaining terms						Remaining
€ million	up to 1 year	more than 1-5 years	more than 5 years	more than 10 years	Total	Total	term of more than 1 year
Hotel complexes	89.6	391.2	71.4	1.0	553.2	433.6	341.7
Travel agencies	93.8	290.3	132.6	66.4	583.1	418.6	346.9
Administrative buildings	55.3	172.8	93.4	68.1	389.6	350.9	294.4
Aircraft	290.7	688.4	114.4	41.4	1,134.9	882.4	636.1
Ships and container	538.1	1,196.2	537.0	54.8	2,326.1	2,219.2	1,556.2
Other	55.1	149.3	46.2	14.5	265.1	153.8	94.8
Total	**1,122.6**	**2,888.2**	**995.0**	**246.2**	**5,252.0**	**4,458.5**	**3,270.1**
Fair value	**1,064.1**	**2,459.6**	**648.4**	**144.1**	**4,316.2**	**3,827.1**	**2,689.9**

The fair value of financial commitments from lease, rental and charter contracts was determined by means of discounting future expenses on the basis of a customary market interest rate of 5.5% p. a. If the previous year's interest rate of 4.5% had been applied, the fair value would have been € 147.3 million higher.

The commitments from lease, rental and leasing contracts exclusively related to leases that did not transfer all the risks and rewards incident to ownership of the assets to the companies of the TUI Group in accordance with IASB rules (operating leases). The test carried out to check whether the risks and rewards incident to ownership had passed to the TUI Group was effected in particular in the light of existing options to purchase the assets or extend the terms of the contracts.

As a matter of principle, operating leases for aircraft do not include a purchase option. To a small extent, current lease payments also include a portion covering maintenance costs. The basic lease term is usually two to eight years.

Lease contracts for container ships showed different terms and conditions. Newly concluded leases regularly include a purchase option.

The increase in rental and lease commitments for hotel complexes, travel agencies and aircraft mainly resulted from the first-time consolidation of the First Choice Holidays Group.

Financial instruments

Risks and risk management

Risk management principles

Due to the nature of its business operations, the TUI Group is exposed to various financial risks, including market risks (consisting of currency risks, interest rate risks and market price risks), credit risks and liquidity risks.

In accordance with the Group's corporate financial goal, financial risks have to be limited. In order to achieve that goal, guidelines and rules applicable throughout the Group have been defined, fixing binding decision bases, competencies and responsibilities for all financial transactions.

Whereas TUI AG was responsible for the central risk management operations for the entire Group and acted as the Group's bank in the past, management responsibilities were divided up differently in accordance with the new Group structure following the merger between the TUI Group's tourism activities and the First Choice Holidays Group. Accordingly, TUI AG continues to be directly responsible for the risk management activities for the logistics division and TUI AG's hotel operations. TUI Travel PLC, in contrast, holds responsibility for these tasks for the tourism sector of TUI Travel PLC with the involvement of TUI AG. Both sides cooperate closely in order to ensure that the corporate financial goal is consistently pursued.

In accordance with the Group's guidelines, hedging activities for Group companies were based on the risk profile and hedging schedule of the respective company. The Group companies submitted monthly reports to TUI AG detailing their current and planned foreign currency and fuel requirements (or surpluses). Based on the risk profile, the hedging schedule and the monthly reports by the companies, each company defined its specific hedging strategy. On the basis of these strategies, TUI AG established its hedge portfolio comprised of derivative financial instruments. Both in the period under review and the 2006 financial year, all transactions occurred in line with the planning.

Use of derivative financial instruments was confined to internally fixed limits and other regulations. As a matter of principle, the instruments used had to be controllable with the respective entity's own resources (human resources, organisational resources and systems). Hedges exclusively consisted of over-the-counter derivatives, predominantly fixed-price transactions (e.g. futures and swaps) as well as options. The transactions were concluded at arm's length with top-rated contracting counterparties in the financial sector. As a matter of principle, all hedging transactions of the Group were based on appropriately recognised or future hedged items.

The trading, settlement and controlling functions were strictly segregated. Compliance with the limits and guidelines was continually monitored. Recognised standard software was used for the assessment, monitoring and reporting of the hedges entered into and the hedged items. The processes, the methods applied and the organisation of risk management were reviewed for compliance with the relevant regulations at least on an annual basis by the internal audit department and external auditors. In this context, a benchmarking against general industry standards was performed.

Market risk

Market risks result in fluctuations in earnings, equity and cash flows. In order to eliminate these risks, the TUI Group has developed various hedging strategies, including the use of derivative financial instruments.

According to IFRS 7, sensitivity analyses showing the effect of hypothetical changes in relevant risk variables on profit or loss and equity are required to present market risks. The effects for the period are determined by relating the hypothetical changes in risk variables to the portfolio of primary and derivative financial instruments as at the balance sheet date. Care is taken to ensure that the respective portfolio as at the balance sheet date is representative for the financial year.

The analyses of the TUI Group's risk reduction activities outlined below and the amounts determined by means of sensitivity analyses represent hypothetical and thus uncertain disclosures entailing risks. Due to unforeseeable development in the international finance markets, actual events may deviate substantially from the disclosures provided. The risk analysis methods used must not be regarded as forecasts of future events or losses, since the TUI Group is also exposed to risks of a non-financial or non-quantifiable nature. These risks primarily include country, business and legal risks not covered by the following presentation of risks.

Currency risk

The operational business of the TUI Group's companies generated payments denominated in foreign currencies, which were not always matched by congruent payments with equivalent terms in the same currency. Using potential netting effects (netting of payments made and received in the same currency with identical or similar terms), TUI AG entered into appropriate hedges with external counterparties in order to limit the currency risk.

Currency hedges in tourism were entered into when the calculated brochure prices had been fixed and covered 95% to 100% of the planned currency requirements for the respective tourism season. The hedged volumes were adjusted in line with changes in planned requirements on the basis of monthly reporting by the subsidiaries.

Currency hedges for the shipping companies were also based on the planned exposures according to the monthly reports submitted by the companies. The hedges covered 80% to 100% of the reported exposures.

Within the TUI Group, risks from exchange rate fluctuations of more than 20 currencies were hedged, with the largest hedging volumes relating to US dollars, euros and British pounds sterling.

The largest hedging volume in the operational business related to US dollars. In the tourism business, payments in US dollars primarily related to the procurement of services in non-European destinations, purchases of aircraft fuel and purchases and rental of aircraft. In the shipping division major procurement and sales transactions were denominated in US dollars. Due to the structure of the respective business, the tourism division had a substantial short position in US dollars whereas the shipping division had a long position in US dollars as a matter of principle.

The Eurozone limited the currency risk from transactions in the key tourist destinations to Group companies whose functional currency was not the euro. The tourism division and primarily the Northern Europe sector was mainly affected by changes in the value of the British pound sterling and the Swedish krona.

Currency risks within the meaning of IFRS 7 arise from primary and derivative monetary financial instruments issued in a different currency other than the functional currency of a company. Currency translation risks from the translation of

financial statements into the Group's currency were not taken into account. Taking account of the different functional currencies within the TUI Group, the sensitivity analyses of the currencies identified as relevant risk variables are presented below. If the respective functional currencies mainly the euro, US dollar and the British pound sterling were revalued or devalued opposite to the remaining currencies the following effects to the value change reserve for financial instruments and the earnings before income taxes would arise:

Sensitivity analysis – currency risks

€ million	31 Dec 2007		31 Dec 2006	
Variable: Exchange rate	+ 10%	- 10%	+ 10%	- 10%
All exchange rates				
Value change reserve	- 236.3	+ 276.9	- 68.4	+ 177.0
Earnings before income taxes	+ 64.6	- 71.3	+ 36.8	- 36.2
Exchange rates of key currencies:				
€/US Dollar				
Value change reserve	- 251.8	+ 293.3	- 153.8	+ 263.9
Earnings before income taxes	+ 63.8	-73.4	- 2.4	+ 7.1
€/British Pound				
Value change reserve	+ 70.5	- 65.0	+ 99.8	- 100.0
Earnings before income taxes	- 14.7	+ 16.7	+ 29.1	- 30.6
British Pound/US Dollar				
Value change reserve	- 57.8	+ 61.7	+ 1.4	- 1.4
Earnings before income taxes	+ 8.6	-7.5	+ 1.8	- 4.6
€/Swiss Franc				
Value change reserve	+ 8.8	- 8.8	+ 4.8	- 4.8
Earnings before income taxes	- 1.2	+ 1.4	+ 3.1	- 3.0
€/Swedish Krona				
Value change reserve	+ 4.8	- 4.8	- 0.3	+ 0.3
Earnings before income taxes	+ 7.8	- 8.2	+ 4.7	- 4.7

Interest rate risk

Interest rate risks, i.e. exposure to potential fluctuations in the fair value of a financial instrument resulting from changes in market interest rates (market value risk), arose primarily from medium- and long-term fixed interest receivables and liabilities. Concerning the bonds issued, the fair values deviated from recognised carrying amounts. However, these financial instruments were carried at amortised cost rather than at fair value as a matter of principle. Neither equity nor profit or loss were therefore directly affected.

However, for balance sheet items and financial derivatives based on floating interest rates, the TUI Group was exposed to earnings-related risks (cash flow interest rate risks). These risks related in particular to the Group's floating-interest debt. In order to minimise this risk, the Group entered into interest rate hedges, where necessary.

Sensitivity analysis – interest rate risk

€ million	31 Dec 2007		31 Dec 2006	
Variable: Interest level for variable interest-bearing debt	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
Earnings before income taxes	- 12.2	+ 10.6	- 10.3	+ 11.0

Market price risk of commodities

Due to the nature of its business operations, the TUI Group was exposed to market price risks from the procurement of fuels, both in tourism and logistics.

Hedging of market price risks from the purchase of aircraft fuel was based on the hedging model of the tourism companies. When calculating the exposures for the respective season, at least 95% of the exposures were hedged. Possibilities of levying fuel surcharges were taken into account.

Hedging of fuel price risks in shipping companies was based on financial derivatives and the use of applicable business-specific price escalator clauses. At least 80% of the exposures were hedged.

Sensitivity analysis – market price risk of commodities

€ million	31 Dec 2007		31 Dec 2006	
Variable: Fuel prices for aircraft and ships	+ 10%	- 10%	+ 10%	- 10%
Value change reserve	123.1	- 118.4	73.8	- 72.4
Earnings before income taxes	0.0	0.0	0.2	- 1.6

Other market price risks

Other market price risks arose from changes in the value of financial instruments due to market price fluctuations.

With the issue of the 2003/2008 convertible bond, TUI has concluded a call spread. The development of the value of this derivative is dependent of the value of the TUI AG share and is thus subject to market risks.

Sensitivity analysis – other market price risks

€ million	31 Dec 2007		31 Dec 2006	
Variable: TUI share price in connection with the convertible bond 2003/2008	+ 10%	- 10%	+ 10%	- 10%
Earnings before income taxes	9.6	- 5.6	3.9	- 2.7

Credit risk

The credit risk in non-derivative financial instruments resulted from the risk of non-performance of contractual payment obligations by counterparties.

Maximum credit risk exposure was defined by the total of the recognised carrying amounts of the financial assets (including derivative financial instruments with positive market values) on the one hand and the granting of financial guarantees on the other. Details of the guarantees at the balance sheet date are given in note 38. Legally enforceable possibilities of netting financial assets and liabilities were taken into account, whereas collateral is not considered. The credit risk was minimised due to the strict requirements with regard to the counterparties' financial standing. Credit risks were monitored closely upon conclusion of the contract so as to be able to swiftly respond to potential impairments in a counterparty's financial standing. As a matter of principle, responsibility for handling the credit risk relating to the operative business was held by the individual Group companies of the TUI Group. Depending on the type of business activity and level of the credit limit, additional monitoring and control activities are effected at Group level.

Since the TUI Group operated in many different business areas and regions, significant credit risk concentrations from receivables from and loans to specific debtors or

groups of debtors were not to be expected. A significant concentration of credit risks related to specific countries was not to be expected either. Wherever possible, collateral was negotiated with the business partners as part of credit risk management in order to reduce the credit risk. Guarantees by the respective parent company, bank guarantees and the deposit of cash and securities are accepted as collateral to reduce the credit risk.

Identifiable credit risks of individual receivables are covered by means of corresponding bad debt allowances. In addition, portfolios are impaired based on empirical values. An analysis of the aging structure of the category 'Trade accounts receivable and other receivables' is provided in note 20.

As at the balance sheet date, the TUI Group did not have financial assets (previous year: € 7.2 million) which would be overdue or impaired if the terms and conditions of the contracts had not been renegotiated.

Credit management also covered the TUI Group's derivative financial instruments. The maximum credit risk for derivative financial instruments entered into was limited to the total of all positive market values of these instruments since in the event of non-performance by the counterparties asset losses would only be incurred up to that amount. Since derivative financial instruments were concluded with a variety of top-rated debtors, no credit risk exposure was to be expected.

Liquidity risk

Liquidity risks consisted of potential financial bottlenecks and resulting increases in refinancing costs. For this reason, the key objectives of TUI's internal liquidity management system were to secure the Group's liquidity at all times, to consistently comply with contractual payment obligations and optimise the cost situation for the overall Group. The Group's liquidity requirements were determined by means of liquidity planning and were covered by committed credit lines so that the Group's liquidity was guaranteed at all times.

The tables provided below list the contractually agreed (non-discounted) cash flows of primary financial liabilities and derivative financial instruments.

Cash flow of financial instruments (31 Dec 2007)

€ million	2008	2009	2010-2011	Cash in-/outflow at 2012
Financial liabilities				
Bonds	- 541.9	- 533.4	- 2,524.8	- 0.0
Liabilities to banks	- 398.5	- 521.1	- 1,439.2	- 339.0
Liabilities from finance leases	- 37.2	- 202.9	- 37.3	- 24.3
Financial liabilities due to non-consolidated Group companies	- 24.8	- 0.0	- 0.0	- 0.0
Financial liabilities due to affiliates	- 3.1	- 0.0	- 0.0	- 0.0
Other financial liabilities	- 107.4	- 3.8	- 11.5	- 28.7
Trade payables	- 2,670.2	- 8.8	- 0.0	- 0.0
Derivative financial instruments				
Hedge transactions – inflows	+ 5,845.2	+ 986.6	+ 1,752.4	+ 259.2
Hedge transactions – outflows	- 5,656.1	- 997.0	- 1,877.2	- 281.1
Other derivative financial instruments – inflows	+ 435.2	+ 1.0	+ 37.2	+ 0.0
Other derivative financial instruments – outflows	- 424.4	- 1.0	- 43.7	- 0.0
Other liabilities	**- 120.1**	**- 18.6**	**- 55.8**	**- 0.1**
Liabilities relating to assets held for sale	**- 0.0**	**- 0.0**	**- 0.0**	**- 0.0**

Cash flow of financial instruments (31 Dec 2006)

€ million	2007	2008	2009-2011	Cash in-/outflow at 2012
Financial liabilities				
Bonds	- 131.3	- 514.5	- 1,825.8	- 471.8
Liabilities to banks	- 300.5	- 209.1	- 557.9	- 146.0
Liabilities from finance leases	- 41.9	- 40.8	- 220.4	- 35.8
Financial liabilities due to non-consolidated Group companies	- 33.7	- 0.5	- 1.6	- 0.0
Financial liabilities due to affiliates	- 6.3	- 0.0	- 0.0	- 0.0
Other financial liabilities	- 103.7	- 12.9	- 36.4	- 21.1
Trade payables	- 1,956.2	- 2.1	- 0.0	- 0.0
Derivative financial instruments				
Hedge transactions – inflows	+ 4,659.9	+ 1,087.9	+ 879.9	+ 226.2
Hedge transactions – outflows	- 4,717.7	- 1,096.9	- 864.9	- 222.0
Other derivative financial instruments – inflows	+ 3,530.6	+ 10.1	+ 0.0	+ 0.0
Other derivative financial instruments – outflows	- 3,594.9	- 10.0	- 0.0	- 0.0
Other liabilities	**- 97.8**	**- 2.3**	**- 7.0**	**- 0.0**
Liabilities relating to assets held for sale	**- 2.1**	**- 0.0**	**- 0.0**	**- 0.0**

The cash flow analysis covered all primary and derivative financial instruments as at the balance sheet date. Planned payments for new future liabilities were not taken into account. Where financial liabilities had a floating interest rate, the interest rates fixed as at the balance sheet date were also applied to subsequent periods to enable calculation of future interest payments. Financial liabilities cancellable at any time were allocated to the earliest maturity band.

Derivative financial instruments and hedges

Strategy and goals

In accordance with the TUI Group's implemented regulations, derivatives may be used if they are based on underlying recognised assets or liabilities, firm commitments or forecasted transactions. Hedge accounting in accordance with IAS 39 is effected in particular in the framework of the hedging of fluctuations in future cash flows. Hedging was only done in the financial year as cash flow hedges.

Forward transactions and options and to a small extent interest/currency swaps were used to limit currency risks. In order to hedge external commodity price risks, price hedging instruments in the form of swaps and options were used.

Cash flow hedges

As at 31 December 2007, hedged items of cash flow hedges with maturities of up to seven years (previous year: up to seven years) existed. The price hedges involved planned underlying transactions with terms of up to two years (previous year: up to three years).

In accounting for derivatives of cash flow hedges, the effective portion of the cumulative changes in market values was carried in the value change reserve with no effect on profit and loss until the underlying transaction occurred. It was carried in the profit and loss statement when the hedged item was executed. In the financial year under review, expenses of € 143.6 million (previous year: benefit of € 109.0 million) were carried in the cost of sales and administrative expenses from currency hedges and derivative financial instruments used as price hedges. Expenses of € 0.5 million (previous year: € - 3.0 million) were carried from the ineffective portion of the cash flow hedges.

Nominal amounts of the derivative financial instruments used

			31 Dec 2007		**31 Dec 2006**
	Remaining terms				
€ million	up to 1 year	more than 1 year	Total	Total	Remaining term more than 1 year
Interest rate hedges					
Swaps	304.5	31.8	336.3	112.6	110.7
Currency hedges					
Forwards	5,008.7	2,562.4	7,571.1	5,985.2	1,944.9
Options	956.7	30.6	987.3	2,321.2	7.8
Collars	50.0	110.1	160.1	492.1	15.5
Swaps and other currency hedges	1,015.4	766.8	1,782.2	101.4	101.4
Commodity hedges					
Swaps	522.2	71.2	593.4	717.2	148.2
Options	401.2	71.2	472.4	118.0	–
Collars	100.5	15.2	115.7	242.4	9.2

The nominal amounts corresponded to the total of all purchase or sale amounts or the respective contract values of the transactions. Cross currency interest rate swaps which cannot be clearly allocated to currency or interest rate hedges were shown under currency hedges.

As a matter of principle, the fair values of derivative financial instruments corresponded to the market values. The market price determined for all derivative financial instruments was the price at which a contracting party would take over the rights and/or obligations of the respective counterparty. The fair value of over-the-counter financial derivatives was determined by means of appropriate discounting methods, e.g. by discounting the expected future cash flows. The forward prices of forward transactions were based on the spot rates, taking account of forward premiums and discounts. The calculation of the fair values of options was based on the Black & Scholes model. The fair values determined on the basis of the Group's own methods were regularly compared with fair value confirmations of external counterparties.

Positive and negative fair values of the derivative financial instruments shown as receivables or liabilities

€ million	31 Dec 2007		31 Dec 2006	
	Receivables	Liabilities	Receivables	Liabilities
Cash flow hedges				
currency risks	157.7	273.3	44.7	60.0
market risks	234.6	0.2	14.6	69.8
Hedges	**392.3**	**273.5**	**59.3**	**129.8**
Other derivative financial instruments	**49.6**	**27.3**	**24.7**	**13.4**
Total	**441.9**	**300.8**	**84.0**	**143.2**

Financial instruments which were used in order to hedge a risk position according to operational criteria but did not meet the strict criteria of IAS 39 to qualify as hedges were shown as other derivative financial instruments. They included in particular structured hedges such as the call spread included on issue of the 2003/2008 convertible bond as well as several foreign currency transactions.

Financial instruments – Additional disclosures

Fair values of derivative financial instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, sold or purchased, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where financial instruments are listed in an active market, e.g. above all shares held and bonds issued, the respective quotation in this market represents the fair value. For over-the-counter bonds, liabilities to banks, note loans and other non-current financial liabilities, the fair value was determined as the present value of future cash flows, taking account of yield curves and the TUI Group's credit spread which depended on its financial standing.

Due to the short remaining terms of cash and cash equivalents, current trade accounts receivable and other receivables, current trade accounts payable and other liabilities, the carrying amount is taken as a realistic estimate of the fair value.

The fair values of non-current trade accounts receivable and other receivables corresponded to the present values of the cash flows associated with the assets, thereby taking account of current interest parameters, which reflect market- and counterparty-related changes in conditions and expectations.

Carrying amounts and fair values according to classes and categories as at 31 Dec 2007

€ million	Carrying amount	Category under IAS 39				Values according to IAS 17 (Leasing)	Carrying amount of financial instru-ments	Fair value of financial instru-ments
		at amortised cost	at costs	Fair value with no effect on profit and loss	Fair value through profit and loss			
Assets								
Financial assets available for sale	121.9	–	121.2	0.7	–	–	121.9	121.9
Trade accounts receivable and other receivables	2,905.1	1,584.0	–	–	–	6.7	1,590.7	1,587.3
Derivative financial instruments								
Hedges	392.3	–	–	392.3	–	–	392.3	392.3
Other derivative financial instruments	49.6	–	–	–	49.6	–	49.6	49.6
Cash and cash equivalents	1,614.0	1,614.0	–	–	–	–	1,614.0	1,614.0
Assets held for sale	–	–	–	–	–	–	–	–
Equity and liabilities								
Financial liabilities	5,540.2	5,283.8	–	–	–	256.4	5,540.2	5,430.7
Trade accounts payable	2,679.0	2,679.0	–	–	–	–	2,679.0	2,679.0
Derivative financial instruments								
Hedges	273.5	–	–	273.5	–	–	273.5	273.5
Other derivative financial instruments	27.3	–	–	–	27.3	–	27.3	27.3
Other liabilities	2,217.5	194.6	–	–	–	–	194.6	194.6
Liabilities relating to assets held for sale	–	–	–	–	–	–	–	–

Carrying amounts and fair values according to classes and categories as at 31 Dec 2006

€ million	Carrying amount	Category under IAS 39				Values according to IAS 17 (Leasing)	Carrying amount of financial instru-ments	Fair value of financial instru-ments
		at amortised cost	at costs	Fair value with no effect on profit and loss	Fair value through profit and loss			
Assets								
Financial assets available for sale	123.1	–	107.4	15.7	–	–	123.1	123.1
Trade accounts receivable and other receivables	2,129.7	1,318.8	–	–	–	9.7	1,328.5	1,324.0
Derivative financial instruments								
Hedges	59.3	–	–	59.3	–	–	59.3	59.3
Other derivative financial instruments	24.7	–	–	–	24.7		24.7	24.7
Cash and cash equivalents	688.7	688.7	–	–	–	–	688.7	688.7
Assets held for sale	171.4	109.5	–	–	–	–	109.5	109.5
Equity and liabilities								
Financial liabilities	3,899.6	3,608.5	–	–	–	291.1	3,899.6	3,883.3
Trade accounts payable	1,958.4	1,958.4	–	–	–		1,958.4	1,958.4
Derivative financial instruments								
Hedges	129.8	–	–	129.8	–	–	129.8	129.8
Other derivative financial instruments	13.4	–	–	–	13.4	–	13.4	13.4
Other liabilities	1,579.0	107.1	–	–	–	–	107.1	106.9
Liabilities relating to assets held for sale	2.1	2.1	–	–	–	–	2.1	2.1

The financial investments classified as financial instruments available for sale included an amount of € 88.5 million (previous year: € 95.0 million) for stakes in partnerships and corporations. The fair value of these non-listed stakes was not effected since the cash flows could not be reliably determined. It was not possible, either, to determine reliable fair values on the basis of comparable transactions.

No significant income or expenses were recognised in the financial year under review from the disposal of shares shown in the category 'Financial assets available for sale' which are valued at acquisition cost.

Aggregation according to categories under IAS 39 (31 Dec 2007)

€ million	at amortised cost	at costs	Fair value with no effect on profit and loss	Fair value through profit and loss	Carrying amount Total	Fair value
Advances and loans	3,198.0	–	–	–	3,198.0	3,194.6
Financial assets						
available for sale	–	121.2	0.7	–	121.9	121.9
held for trading	–	–	–	49.6	49.6	49.6
Financial liabilities						
at amortised costs	8,157.4	–	–	–	8,157.4	7,983.5
held for trading	–	–	–	27.3	27.3	27.3

Aggregation according to categories under IAS 39 (31 Dec 2006)

€ million	at amortised cost	at costs	Fair value with no effect on profit and loss	Fair value through profit and loss	Carrying amount Total	Fair value
Advances and loans	2,117.0	–	–	–	2,117.0	2,112.5
Financial assets						
available for sale	–	107.4	15.7	–	123.1	123.1
held for trading	–	–	–	24.7	24.7	24.7
Financial liabilities						
at amortised costs	5,676.1	–	–	–	5,676.1	5,670.4
held for trading	–	–	–	13.4	13.4	13.4

Effects on results

The net results of financial instruments according to the valuation categories under IAS 39 were as follows:

Net results of financial instruments

€ million	2007 from interests	2007 other net results	2007 net result	2006 from interests	2006 other net results	2006 net result
Advances and loans	59.1	- 20.0	39.1	57.6	- 25.1	32.5
Financial assets available for sale	–	6.3	6.3	–	1.3	1.3
Financial assets and liabilities held for trading	–	142.6	142.6	–	54.9	54.9
Financial liabilities at amortised costs	- 301.2	14.9	- 286.3	- 267.3	6.7	- 260.6
Total	**- 242.1**	**143.8**	**- 98.3**	**- 209.7**	**37.8**	**- 171.9**

Besides interest income and interest expenses, net results primarily included results from participations, gains/losses on disposal, effects of fair value valuation and value adjustments.

Financial instruments valued at fair value but not shown in the profit and loss account in generated provision expenses of € 6.7 million (previous year: € 7.6 million).

Capital risk management

One of the key management parameters in capital risk management is gearing, i.e. relationship between the Group's net debt and Group equity according to IFRS. From a risk perspective, a balance between net debt and equity is worthwhile. The current Group target is a gearing of 80% to 110%.

In order to actively control the capital structure, the TUI Group's management may change dividend payments to the shareholders, repay capital to the shareholders and issue new shares or hybrid capital. The management may also sell assets in order to reduce Group debt.

Gearing calculation

€ million	31 Dec 2007	31 Dec 2006
Average financial debt	4,895.0	4,245.3
Average cash and cash equivalent	1,738.6	1,106.6
Average Group net debt	3,156.4	3,138.7
Average Group equity	3,183.6	3,821.1
Gearing	**99.1%**	**82.1%**

Major subsidiaries, associated companies and joint ventures

		Nominal share capital in '000	Result for the year in '000	Shareholding (%) total	of which indirect
Tourism					
Atlantica Hellas S.A., Athens[2) 3)]	€	24,326	181	25.7	25.7
First Choice Holidays PLC, Crawley[5)]	GBP	16,440	- 33,621	51.4	51.4
Groupe Nouvelles Frontières S.A.S., Montreuil	€	3,274	- 63,546	51.4	51.4
GRUPOTEL DOS S.A., C'an Picafort[2) 3)]	€	64,396	1,085	50.0	–
Hapag-Lloyd Fluggesellschaft mbH, Langenhagen	€	45,000	- 14,906	51.4	51.4
JetAir N.V., Oostende[1)]	€	750	20,823	51.4	51.4
Magic Life GmbH & Co. KG, Vienna	€	146	- 20,902	100	100
Riu Hotels S.A., Palma de Majorca[2) 3)]	€	40,809	35,007	49.0	–
RIUSA II S.A., Palma de Majorca[1) 4)]	€	1,202	92,007	50.0	–
Robinson Club GmbH, Hanover	€	5,138	- 258	100	–
Tenuta di Castelfalfi S.p.A., Florence	€	40,000	- 1,953	85.0	–
Touraventure S.A., Montreuil	€	10,470	- 25,754	51.4	51.4
TUI (Suisse) AG, Zurich	CHF	4,854	4,225	51.4	51.4
TUI Deutschland GmbH, Hanover	€	20,000	- 5,189	51.4	51.4
TUI InfoTec GmbH, Hanover[1) 3)]	€	1,000	- 1,759	49.9	49.9
TUI Leisure Travel GmbH, Hanover	€	14,501	- 4,168	51.4	51.4
TUI Nederland N.V., Rijswijk[1)]	€	10,000	15,130	51.4	51.4
TUI Northern Europe Ltd., Luton[1)]	GBP	250,459	- 96,751	51.4	51.4
TUI Österreich GmbH & Co. KG, Vienna	€	2,544	505	38.6	38.6
TUI Travel PLC, Crawley	GBP	111,851	- 7,611	51.4	–
Turcotel Turizm A.S., Istanbul	€	41,486	- 5,534	100	100
Shipping					
Hapag-Lloyd AG, Hamburg[1)]	USD	33,743	48,024	100	–
Hapag-Lloyd Kreuzfahrten GmbH, Hamburg[1)]	€	520	10,118	100	–
Other Companies					
Preussag Finanz- und Beteiligungs-GmbH, Hanover	€	148,001	–	100	–
Preussag Immobilien GmbH, Salzgitter	€	25,856	- 2,474	100	100
Preussag UK Ltd., London	GBP	82,000	24,097	100	–
Salzgitter Grundstücks- und Beteiligungsgesellschaft mbH, Salzgitter	€	71,427	- 7,405	100	–
TUI Beteiligungs GmbH, Hanover	€	500	- 8,200	100	–

[1)] according to financial statements of the Group
[2)] Result for the year according to financial statements as per 31 December 2007
[3)] Joint venture
[4)] Control despite shareholding of 50% or less
[5)] Result for the year according to financial statements of the Group for the period from 1 September to 31 December 2007

The results for the year shown above resulted from the individual or group financial statements prepared according to IFRS rules and comprised earnings portions eliminated in the framework of TUI AG's consolidated financial statements.

Notes on the Cash Flow Statement

Notes on the cash flow statement

The cash flow statement showed the flow of cash and cash equivalents on the basis of a separate presentation of cash inflows and outflows from operating, investing and financing activities. The effects of changes in the group of consolidated companies were eliminated.

(41) Cash inflow/outflow from operating activities

In the period under review, the cash inflow from the operating activities of the sectors divested in 2006 (business travel activities TQ3 Travel Solutions, Wolf Heiz- und Klimatechnik and IT services companies of TUI InfoTec) was no longer recorded, the consolidation of the First Choice Group had a significant negative effect due to the seasonally weak last third of the year and the utilisation of provisions for the restructuring and integration programmes in shipping and tourism resulted in cash outflows. Nevertheless, the significant improvement in earnings level both in tourism and shipping created an increase in the cash flow from operating activities of € 102.0 million.

The cash inflow from operating activities included interest received. In the year under review, interest received totalled € 82.2 million (previous year: € 64.5 million). In the 2007 financial year, income tax payments resulted in a cash outflow of € 50.7 million (previous year: € 62.1 million).

(42) Cash inflow/outflow from investing activities

The cash payments for investments in property, plant and equipment and intangible assets or the cash receipts from corresponding disposals did not match the additions or disposals shown under the development of fixed assets, which included non-cash investments and disposals. The cash payments for investments in property, plant and equipment comprised mainly advanced payments for six container ships and payments for three acquired container ships in the reported year.

The cash outflow from investing activities included cash payments – offset against acquired cash and cash equivalents – for the acquisition of shares in subsidiaries to be included in consolidation. The consolidated balance sheet comprised additions of goodwill, assets and liabilities due to the acquisition of shares in subsidiaries to be included in consolidation. Total acquisitions of shares in subsidiaries and investments in the 2007 financial year resulted in cash payments of around € 111.5 million (previous year: around € 43.9 million). Cash and cash equivalents acquired with these acquisitions totalled around € 23.4 million.

In the completed financial year, dividend payments received including dividends received by the companies measured at equity generated cash inflows of € 24.1 million (previous year: € 22.9 million).

Non-cash investments were primarily effected in the TUI Hotels & Resorts sector by means of finance leases. Lease agreements resulted in total investments of € 15.9 million (previous year: € 76.9 million).

The cash flows from investing activities comprised capitalised interest on borrowings of € 14.1 million (previous year: € 7.0 million).

(43) Cash inflow/outflow from financing activities

In the 2007 financial year, the cash flow from financing activities was substantially characterised by the raising of € 694,0 million and the raising of € 150.0 million by means of private placements. Further loans raised up to € 159.0 million for financing two ships.

Following the addition of the First Choice Group, the debt of First Choice was refinanced by means of a syndicated credit line of TUI Travel PLC, reflected in the corresponding cash flows as a redemption worth around € 0.7 billion and new debt taken up of around the same amount.

Cash flows from financing activities included cash flows due to financial liabilities taken up or redeemed and interest paid in the financial year under review. The dividend reported for TUI AG related to the serving of hybrid capital.

(44) Development of cash and cash equivalents

Cash and cash equivalents comprised all liquid funds, i.e. cash in hand, bank balances and cheques. The impact of changes in cash and cash equivalents due to exchange rate fluctuations was shown separately. Also outlined separately were the changes in cash and cash equivalents attributable to changes in consolidation which did not result from the acquisition or divestment of companies. They included the cash and cash equivalents of € 438.9 million received under the merger with the First Choice Group.

As at 31 December 2007, cash and cash equivalents of € 0.2 billion were subject to restraints on disposal. These amounts had to be deposited as collateral for tourism services by tour operators due to national provisions related to hedging tourism services.

Other Notes

Significant transactions after the balance sheet date

In mid-January 2008, TUI AG issued a financing scheme with a nominal volume of € 450.0 million maturing in 2013, which was structured by Deutsche Bank in the framework of an exchangeable bond. To this end, TUI AG sold 10.7% of its shares in TUI Travel PLC to Deutsche Bank, which in turn transferred these shares to Nero Finance. Nero Finance, which TUI AG does not hold a stake in, issued an exchangeable bond with cash compensation option and an annual interest coupon of 4.5%, with a conversion option to convert into TUI Travel PLC shares. At the same time, TUI AG and Deutsche Bank or Nero Finance concluded an agreement according to which Nero Finance committed to exercise the voting rights from the shares held in accordance with the instructions given by TUI AG. TUI AG will also continue to obtain the economic benefit of the dividends of TUI Travel PLC received in connection with the shares held by Nero Finance. If the holders of the exchangeable bonds do not exercise their conversion rights, TUI AG will be obliged to repurchase TUI Travel PLC shares at the nominal value of the bond at the end of the term. If the holders exercise their conversion rights, TUI AG will be entitled to repurchase TUI Travel PLC shares at market value at the end of the term, using the cash compensation option. TUI AG continues to hold control over its subsidiary TUI Travel PLC.

Apart from these transactions, no further material transactions were resolved, initiated or implemented in the post-balance sheet period under review, i.e. the period between balance sheet date and the granting of the unqualified auditing certificate by the auditors (3 March 2008).

Services of the auditors of the consolidated financial statements

Total expenses of € 5.0 million were carried for the professional services provided by the auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. Of this total, € 2.7 million related to audits, € 2.2 million to other attestation or measurement services and € 0.1 million to other services provided for TUI AG or its subsidiaries. The increase of audit expenses of € 2.2 million is mainly due to additional deligatory audits of the shortened business year caused by the legal restructuring of the German tourism companies in relation to the formation of TUI Travel PLC.

Remuneration of Executive and Supervisory Board members

In the financial year under review, total remuneration paid to Board members totalled € 16,391.7 thousand (previous year: € 7,368.0 thousand).

In the framework of the long-term incentive programme, the Board members received a remuneration of € 1,164.1 thousand (previous year: € 17.0 thousand) for the financial year under review. The amount paid in the previous year was translated into 963 phantom stocks in TUI AG in March 2007. The remuneration granted for 2007 will be translated into phantom stocks at the Supervisory Board meeting in March 2008.

Pension provisions for active Executive Board members totalled € 19,929 thousand as at the balance sheet date (previous year: € 20,663 thousand).

Total remuneration for Supervisory Board members in the financial year under review amounted to € 2,838.5 thousand (previous year: € 1,939.2 thousand). Remuneration for former Executive Board members or their surviving dependants totalled € 7,011 thousand in the financial year under review, including one-off severance pay of € 777 thousand (previous year: € 5,652 thousand). Pension obligations for former Executive Board members and their surviving dependants amounted to € 34,780 thousand (previous year: € 47,811 thousand) in the financial year under review.

Disclosures of the relevant amounts for individual Board members and further details are provided in the remuneration report included in the management report.

Related parties

Apart from the subsidiaries included in the consolidated financial statements, TUI AG, in carrying out its ordinary business activities, maintained indirect or direct relationships with related parties. Related parties controlled by the TUI Group or over which the TUI Group is able to exercise a significant influence are listed in the list of shareholdings deposited in the electronical Federal Gazette (www.ebanz.de). Apart from pure equity investments, related parties also included companies that supplied goods or provided services for TUI Group companies.

Transactions with related parties (excl. key management)

€ million	2007	2006
Services provided by the Group		
Management and consultancy services	25.3	30.1
Sales of tourism services	0.0	5.4
Distribution services	7.8	8.2
Other services	49.1	–
Total	**82.2**	**43.7**
Services received by the Group		
in the framework of lease, rental and leasing agreements	26.6	30.6
Purchase of hotel services	69.9	119.2
Incoming services	123.9	160.7
Distribution services	0.0	4.2
Container handling and terminal services	59.1	43.4
Other services	11.0	12.0
Total	**290.5**	**370.1**

Transactions with related parties (excl. key management)

€ million	2007	2006
Services provided by the Group to		
non-consolidated Group companies	7.8	9.8
joint ventures	10.9	17.9
associated companies	50.4	3.6
other shareholdings	–	–
natural persons	13.1	12.4
Total	**82.2**	**43.7**
Services received by the Group from		
non-consolidated Group companies	24.8	24.8
joint ventures	153.1	178.6
associated companies	83.3	102.2
other shareholdings	26.1	57.9
natural persons	3.2	6.6
Total	**290.5**	**370.1**

Transactions with associated companies in which shareholdings were held and joint ventures were primarily effected in the tourism segment. They related in particular the tourism services of the incoming agencies and hotel companies used by the Group's tour operators.

All transactions with related parties were executed on an arm's length basis, based on international comparable uncontrolled price methods in accordance with IAS 24 as customary with third parties outside the Group.

Liabilities to related parties did not comprise any liabilities from finance leases, as in 2006. Receivables and liabilities existing as at the balance sheet date were comprised in receivables from and liabilities to non-consolidated Group companies and associated companies.

The income and expenses resulting from equity investments and financing were carried under the financial result for all consolidated companies and presented in the segment report for the individual divisions, together with a separate presentation of the earnings of associated companies by divisions.

As at the balance sheet date, the associated company Riu Hotels S.A. held 5.1% of the shares in TUI AG. Ms Carmen Riu Güell and Mr Abel Matutes Juan were members of TUI's Supervisory Board and indirectly held 5.1% or 2.4%, respectively, of the shares in TUI AG.

In accordance with IAS 24, key management functions within the Group, the Executive Board and the Supervisory Board, were related parties whose remuneration had to be listed separately.

€ million	2007	2006
Short-term employee benefits	16.8	8.8
Post-employment benefits	0.5	2.0
Other long-term employee benefits	1.1	0.5
Termination benefits	0.9	5.3
Share-based payment	1.2	–
Total	**20.5**	**16.6**

The benefits upon termination of the employment relationship were current pension costs recognised for active Board members in the respective financial year in the framework of the transfers to pension provisions. In accordance with the Corporate Governance Code, these expenses do not represent remuneration of the Executive Board. Termination benefits included an amount of € 0.1 million for the formation of a provision.

Responsibility Statement by Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Hanover, 4 March 2008

The Executive Board

Frenzel

Baier Behrendt Engelen

Feuerhake Long

Auditor's Report

'We have audited the consolidated financial statements prepared by the TUI AG, Berlin and Hanover, comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the TUI AG for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB („Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.'

Hanover, 4 March 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Norbert Winkeljohann
Wirtschaftsprüfer

Sven Rosorius
Wirtschaftsprüfer

Forward-looking Statements

The annual report, in particular the report on expected developments included in the management report, includes various forecasts and expectations as well as statements relating to the future development of the TUI Group and TUI AG. These statements are based on assumptions and estimates and may entail known and unknown risks and uncertainties. Actual development and results as well as the financial and asset situation may therefore differ substantially from the expectations and assumptions made. This may be due to market fluctuations, the development of world market prices for commodities, of financial markets and exchange rates, amendments to national and international legislation and provision or fundamental changes in the economic and political environment. TUI does not intend to and does not undertake an obligation to update or revise any forward-looking statements to adapt them to events or developments after the publication of this annual report.

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Table of Contents

4 To our Shareholders

26 Management Report

28 Business and Operating Environment
40 Group Turnover and Earnings
47 Tourism
56 Shipping
63 Earnings
68 Net Assets
73 Financial Position
84 Report on Subsequent Events
85 Risk Report
92 Remuneration Report
98 Research and Development
100 Human Resources
102 Environmental Protection
104 Report on Expected Developments

108 Corporate Governance

110 Corporate Governance Report
114 Supervisory Board
117 Executive Board
118 Report of the Supervisory Board
123 TUI Share
128 TUI Group in Figures
129 Sustainable Development

136 Financial Statements

138 Consolidated Profit and Loss Statement
139 Consolidated Balance Sheet
140 Statement of Recognised Income and Expenses
140 Cash Flow Statement

141 Notes

141 Notes on the Principles and Methods
162 Segment Reporting
171 Notes on the Consolidated Profit and Loss Statement
181 Notes on the Consolidated Balance Sheet
223 Major Shareholdings
224 Notes on the Cash Flow Statement
226 Other Notes
229 Responsibility Statement by Management
230 Auditor's Report

Brief Profile

TUI is a global player in tourism and shipping. In the tourism division, the merger with First Choice created TUI Travel PLC, one of the world's largest tourism companies. With Hapag-Lloyd, the shipping segment operates the fifth-largest container shipping company in the world. In both divisions, customers regard TUI as a top-rank provider.

The good market position occupied by the divisions and the expansion of the tourism segment with the new TUI Travel PLC in 2007 have established a secure basis for further growth across the TUI Group.

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