ANNUAL REPORT

2017

TUI GROUP

TUI Group 2017 in numbers

€ 18.5 bn

+11.7 %[1]
turnover
year-on-year

€ 1,102.1 m

+12.0 %[1]
underlying EBITA
year-on-year

56 %[2]
from hotels & cruises content
compared with 30 %[2] at time of merger

23.6 % ROIC
6.75 % WACC

€ 1.14

+33.7 %[1]
underlying EPS
year-on-year

€ 65 cents

Dividend per share

[1] At constant currency rates
[2] Share of underlying EBITA TUI Group, based on 2017 Year End and 2014 Year End reported numbers

Formats

The Annual Report and the Magazine are also available online

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»Three years after the merger, we are in an ideal strategic position to turn our sights onto new horizons. We will pursue consistent growth, investments to generate value and efficiency through digitalisation.«

Friedrich Joussen, *Chief Executive Officer of TUI AG*

Contents

Financial highlights

€ million		2017	2016 restated	Var. %	Var. % at constant currency
Turnover		18,535.0	17,153.9	+ 8.1	+11.7
Underlying EBITA[1]					
Hotels & Resorts		356.5	303.8	+17.3	+19.2
Cruises		255.6	190.9	+ 33.9	+ 38.0
Source Markets		526.5	554.3	– 5.0	– 4.0
Northern Region		345.8	383.1	– 9.7	– 8.4
Central Region		71.5	85.1	–16.0	–15.8
Western Region		109.2	86.1	+ 26.8	+ 27.0
Other Tourism		13.4	7.9	+ 69.6	+124.6
Tourism		**1,152.0**	**1,056.9**	**+ 9.0**	**+11.2**
All other segments		– 49.9	– 56.4	+11.5	+ 3.4
TUI Group		**1,102.1**	**1,000.5**	**+10.2**	**+12.0**
Discontinued operations		–1.2	92.9	n. a.	
Total		**1,100.9**	**1,093.4**	**+ 0.7**	
EBITA[2, 4]		1,026.5	898.1	+14.3	
Underlying EBITDA[4]		1,541.7	1,379.6	+11.7	
EBITDA[4]		1,490.9	1,305.1	+14.2	
Net profit for the period		910.9	464.9	+ 95.9	
Earnings per share[4]	€	1.36	0.61	+123.0	
Equity ratio (30 Sept.)[3]	%	24.9	22.5	+ 2.4	
Net capex and investments (30 Sept.)		1,071.9	634.8	+ 68.9	
Net cash (30 Sept.)[4]		583.0	31.8	n. a.	
Net cash (30 Sept.)[5]		–	318.0	n. a.	
Employees (30 Sept.)		66,577	66,779	– 0.3	

Differences may occur due to rounding
This Annual Report of the TUI Group was prepared for the financial year from 1 October 2016 to 30 September 2017. The terms for previous years were renamed accordingly.
Due to the following changes to segmental reporting the prior year's reference figures were restated accordingly:
The main part of the Specialist Group (Travelopia), carried under discontinued operations in previous year, was sold June 2017. Prior to that Crystal Ski and Thomson Lakes & Mountains, previously part of the Specialist Group, were transferred to the segment Northern Region. Blue Diamond Hotels & Resorts Inc., former part of Northern Region was reclassified to the Hotels & Resorts segment. Marella Cruises (former Thomson Cruises, Northern Region) was transferred to the Cruises segment.

1 In order to explain and evaluate the operating performance by the segments, EBITA adjusted for one-off effects (underlying EBITA) is presented. Underlying EBITA has been adjusted for gains/losses on disposal of investments, restructuring costs according to IAS 37, ancillary acquisition costs and conditional purchase price payments under purchase price allocations and other expenses for and income from one-off items.
2 Our definition of EBITA is earnings before net interest result, income tax and impairment of goodwill and excluding the result from the measurement of interest hedges.
3 Equity divided by balance sheet total in %, variance is given in percentage points.
4 Continuing operations
5 Discontinuing operations

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LETTER TO OUR SHAREHOLDERS

Dear shareholders,

2017 was another very good year! We were able to continue our success story. With underlying EBITA up by 12 per cent, TUI Group increased its operating result by more than ten per cent for the third time in a row. We are keeping our promise. Above all, the strategic alignment for the new TUI is clearly correct. Our focus on hotels and our investment in cruise liners is reaping rewards. We owe the Group's positive economic performance to our customers, to our 67,000 employees in over 100 countries and to your loyalty as shareholders of TUI AG. This year too, we want you to share in TUI's success with a very attractive dividend. We have therefore proposed to the Annual General Meeting to increase the dividend to 65 cents per share for the completed financial year.

We operate in a growth industry. People want to travel, regardless of global political events. With the exception of 2009 at the peak of the financial crisis, our sector has grown faster than gross domestic product every year. These are favourable conditions for picking up further market share and continuing to build on our position as the world's leading tourism group. That is our goal, and we are devoting our full energy to achieving it.

How are we framing this growth? In this financial year alone, we opened ten new hotels, while our cruise fleet acquired two more vessels to make 16. Our own hotels and cruise ships now account for 56 per cent of our earnings. Attaching greater weight to these operations in our earnings portfolio brings definite advantages. These businesses generates stronger margins and are is much less seasonal. Whereas the earnings contributions from our tour operators are posted almost entirely in the last three months, the inflow from our hotel and cruise business is more evenly spread over the year and every quarter is positive. This trend has strengthened TUI and makes us more attractive to investors and the capital market.

We enhanced our leeway for growth even further during the last financial year by selling our specialist travel brands. The disposal of Travelopia to the private equity company KKR generated an enterprise value of around 370 million euros. We also spun off our remaining stake in Hapag-Lloyd AG. This final exit from container shipping and the sale of non-core businesses complete the transformation. TUI is now a pure play tourism group. Our vision 'Think Travel. Think TUI.' aptly reflects our aspirations. And our strategic positioning ensures that we can provide every module in the tourism value chain from advice and booking to travel, accommodation and destination services. The TUI brand symbolises quality and trust. Differentiated product is above all secured by our own hotels, clubs and ships. Brands like TUI Blue, Robinson, Riu and TUI Magic Life, Hapag-Lloyd Cruises with the MS Europa and TUI Cruises with the 'Mein Schiff' fleet guarantee TUI quality for holidaymakers all over the world. We don't just sell this travel experience; we are setting standards, because TUI is at once developer, investor and operator.

So we want to build on the success of our traditional markets and activities. And we want to expand our business into regions and countries of the globe where we do not yet have a presence. That includes a number of countries in Southern Europe. In Italy and Portugal, the TUI brand is familiar because they are important destinations and many of our customers travel there. As a holiday provider, however, we have so far had almost no market visibility. Emerging economies like Brazil and China are also shifting further into our focus. Their new middle classes are growing fast and increasingly discovering the joys of travel for themselves. We want to profit from that, but in those markets we do not intend to create a dense network of travel agencies. Instead, we will rely exclusively on our online presence and on strong local partners.

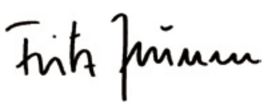
Friedrich Joussen, *CEO of TUI AG*

Our goal is ambitious, but we believe in these markets. As part of our strategy programme 'TUI 2022', the target for this expansion over the next five years is to win one million new customers and generate an additional one billion in turnover. This expansion entails big opportunities for our hotel investments in those parts of the world, because the demand for capacity will no longer come solely from Europe like now, but also from the surrounding region. The Caribbean has set a shining example: our hotels there enjoy excellent occupancy rates – thanks to long-haul tourists from Europe combined with guests from the United States and Canada. We can achieve the same in South-East Asia. For our new hotels and investments, the occupancy risk is tangibly reduced because our target groups are broader, more diverse and increasingly international.

I also believe there are major opportunities for TUI in our clear strategy for digitalisation. This digitalisation will not only help us tap into new markets like China. It is happening throughout the company. Data enable us to reach out to our customers in a better, more personal manner and to market new services. For me, more digital means more service – and better service – for the customer, and more efficiency for the company. TUI's use of blockchain has attracted a lot of attention. Ever more so because we aren't just talking about the potential, but actually began placing it in the service of our hotels in summer 2017. As an integrated tourism group, we accompany our customers right along the value chain, from the moment they seek advice and book a holiday to the services they require at the destination and their accommodation in the hotel or on board the liner. This teaches us about their likes and preferences, enabling us to offer personalised add-ons. Personalised means relevant – products and services that offer these customers genuine added value. In recent months, we have rolled out a centralised, efficient IT infrastructure across the Group. It provides the technical basis for TUI to gain a single view of the customer and the customer experience. Our investments in IT are easily summed up: more service for our customers and more value for us as a company. It is my firm conviction that in this field we are setting the standards for our industry.

TUI is in bouncing good health, and TUI is ready for more growth. Those two factors will enable us to continue to outperform the market in the coming years. That is why we are so confident that we can increase underlying EBITA by at least 10 per cent a year until 2020. Those are bright prospects for you as shareholders. Thank you for your interest and support over the last year. Your trust and encouragement are important to us. Let's take the next steps together.

Kind regards,



Friedrich Joussen
CEO of TUI AG

KEY FIGURES Outlook 2017[1]	OUTLOOK ACHIEVEMENT Actual 2017	OUT-LOOK 2018
Turnover in € bn		
in excess of 3 %[2, 4]	19.2 +11.7 %[2]	approximately +3 %[2, 3]
EBITA (underlying) in € m		
at least +10 %[2]	1,121 +12.0 %[2]	at least +10 %[2]
Adjustments in € m		
100[4] costs	76 costs	~ 80 costs
Net capex and investments in € bn		
1.0[5]	0.9[5]	~1.2[6]
Net debt in € bn		
broadly neutral[4]	0.6 net cash	slightly negative

[1] As published on 8 December 2016, unless otherwise stated
[2] Variance year-on-year assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current group structure
[3] Excluding cost inflation relating to currency movements
[4] Target adjusted
[5] Excluding aircraft orderbook finance
[6] Assuming acquisition of Mein Schiff 1 for Marella Cruises

GROUP EXECUTIVE COMMITTEE

DAVID BURLING

Member of the Executive Board;

Nothern Region, Airlines, Hotel Purchasing

DR HILKA SCHNEIDER

Group Director Legal, Compliance & Board Office

THOMAS ELLERBECK

Group Director Corporate & External Affairs

FRIEDRICH JOUSSEN

CEO

ELIE BRUYNINCKX

CEO Western Region

KENTON JARVIS

Group Director Controlling and Financial Director Tourism

DR ELKE ELLER
Member of the Executive Board;
Human Resources, Personnel Director

SEBASTIAN EBEL
Member of the Executive Board;
Central Region, Hotels and Resorts, Cruises, TUI Destination Services

ERIK FRIEMUTH
Group Chief Marketing Officer

HORST BAIER
Member of the Executive Board;
CFO

FRANK ROSENBERGER
Member of the Executive Board;
IT, New Markets

HENRIK HOMANN
Group Director Strategy

Please refer to our website for CVs www.tuigroup.com/en-en/about-us/about-tui-group/management

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

TUI AG has delivered on its promise! With the completion of financial year 2017, your Company has delivered the considerable year-on-year increase in earnings promised in the wake of the merger in 2014 for the third consecutive year. This success is the result of major, joint efforts by the Executive Board, employees and Supervisory Board – and we are proud of it! In a geopolitical situation characterised by continued uncertainty and risks, TUI AG has sent an important signal of reliability to you, its owners, but also to its employees. The trust you placed in the merger between TUI AG and TUI Travel PLC was justified.

Today, we can regard the merger and the integration of the two companies and cultures as completed. The Executive Board has fully delivered and in some key areas even outperformed the synergies promised in the wake of the merger. As the global employee survey carried out for the third consecutive year has shown, TUI's executives and employees show far above-average engagement. They trust the work performed by the Executive Board and the strategy, which focuses on the transformation from a conventional trading company and tour operator to a vertically integrated content provider. We thus continue to be on track.

In financial year 2017, the Supervisory Board supported in particular the further development of key issues of relevance to the Company. We intensively discussed the Group's future strategic orientation with the Executive Board. Apart from the influence of blockchain technology on today's business model, the situation at TUI fly and the ultimately failed negotiations about a European aviation joint venture, we also discussed the Group's strategy in Asia and held in-depth discussions about the impact of Brexit on the Company. In order to prepare the strategic debates of the Supervisory Board, the Strategy Committee formed in 2016 again proved to be a valuable, focused platform. The Committee also discussed, inter alia, TUI Group's airline strategy and its platform strategy (e.g. IT, brand, marketing) and the associated Group-wide systems.

Corporate Governance issues were another focus of our work. Apart from features derived from the further development of the German and the UK Corporate Governance Codes, we also dealt with a review of the remuneration system for the Executive Board. Following the merger, we had deliberately placed the focus on continuity. We merely shifted the remuneration for Supervisory Board members to a system of purely fixed remuneration two years ago. Nevertheless, we recognise that our shareholders regard the remuneration system applied for a number of years as being in need of revision. Following careful review and analysis, we managed, taking into account and weighing up the interests of many stakeholders – including cross-border stakeholders – and following intense debates about numerous alternatives, we finally succeeded in adopting a remuneration system meeting all legal requirements and manifold recommendations. It will be applied with retroactive effect from 1 October 2017, as all Executive Board members have agreed. The new system will increase the transparency of the exercise of discretion by the Supervisory Board in individual performance assessment through alignment with a target system. Moreover, we have abandoned the possibility of paying discretionary bonuses for good. The payment hurdles for the variable remuneration have become significantly more ambitious following your legitimate comments, and they offer the Executive Board new opportunities. My colleagues on the Supervisory Board and I are convinced that the new, unanimously adopted compensation system for the Executive Board members harmonises the sometimes diverging interests of shareholders, employees and Executive Board members in the best possible manner. Based on this conviction, we will submit the remuneration system, described concerning its major elements and amendments on page 116 of the Annual Report, to the Annual General Meeting 2018 for its approval.

We have also repeatedly dealt with the future composition of the Supervisory Board and its chair, after Peter Long announced that he was no longer seeking to assume the role as chairman of the Supervisory Board. Peter Long will remain Chairman of the Strategy Committee and successfully continue its work in cooperation with the members. The Supervisory Board also plans to elect Mr Long as its second Deputy Chairman when Sir Mike Hodgkinson leaves the Supervisory Board at the Annual General Meeting 2018.

Although I have been elected for a term of office that will expire at the Annual General Meeting 2021, I had already announced at my re-election in 2016 that I was going to exercise my functions for an appropriate period of time. I intend to step down from my offices as at 30 September 2018. Against this backdrop, my activities but also those of the Nomination Committee, Presiding Committee and Supervisory Board were devoted in part to the search for a successor. I am delighted that the Supervisory Board, at its meeting on 12 December 2017, proposed Dr Dieter Zetsche as a candidate for election by the Annual General Meeting 2018 and has announced its intention to elect Dr Zetsche as Chairman of the Supervisory Board upon my departure should he be elected by the shareholders. I am convinced that TUI AG has gained a high-calibre, experienced entrepreneur with extensive international experience and a far-reaching understanding of strategically important issues with Dr Zetsche.

Cooperation between the Executive Board and the Supervisory Board

In a stock corporation under German law, there is a mandatory strict separation of the executive board and the supervisory board. While the management of the company is the exclusive task of the executive board, the supervisory board is in charge of advising and overseeing the executive board. As the oversight body, the Supervisory Board provided on-going advice and supervision for the Executive Board in managing the Company in financial year 2017, as required by the law, the articles of association and our own terms of reference.

Its actions were guided by the principles of good and responsible corporate governance. Our monitoring activities essentially served to ensure that the management of business operations and the management of the Group were lawful, orderly, fit for purpose and commercially robust. The individual advisory and oversight tasks of the Supervisory Board are set out in terms of reference. Accordingly, the Supervisory Board is, for instance, closely involved in entrepreneurial planning processes and the discussion of strategic projects and issues. Moreover, there is a defined list of specific Executive Board decisions requiring the consent of the Supervisory Board, some of which call for detailed review in advance and require the analysis of complex facts and circumstances from a supervisory and consultant perspective (own business judgement).

TUI AG falls within the scope of the German Industrial Co-Determination Act (MitbestG). Its Supervisory Board is therefore composed of an equal number of shareholder representatives and employee representatives. Employee representatives within the meaning of the Act include a senior manager (section 5 (3) of the German Works Council Constitution Act) and three trade union representatives. All Supervisory Board members have the same rights and obligations and they all have one vote in voting processes. In the event of a tie, a second round of voting can take place according to the terms of reference for the Supervisory Board, in which case I as Chairman of the Supervisory Board have the casting vote.

In written and verbal reports, the Executive Board provided us with regular, timely and comprehensive information at our meetings and outside our meetings. The reports encompassed all relevant facts about strategic development, planning, business performance and the position of the Group in the course of the year, the risk situation, risk management and compliance, but also reports from the capital markets (e. g. from analysts), media reports and reports on current events (e. g. crises). The Executive Board discussed with us all key transactions of relevance to the Company and the further development of the Group. Any deviations in business performance from the approved plans were explained in detail. The Supervisory Board was involved in all decisions of fundamental relevance to the Company in good time. We fully discussed and adopted all resolutions in accordance with the law, the Articles of Association and our terms of reference. We were comprehensively and speedily informed about specific and particularly urgent plans and projects, including those arising between the regular meetings. As Chairman of the Supervisory Board, I was also regularly informed about current

The Supervisory Board of TUI AG at its meeting on 17 October 2017, TUI AG Hannover.

Back row: Dr Dierk Hirschel, Coline Lucille Mc Conville, Mag. Stefan Weinhofer, Peter Long, Peter Bremme, Andreas Barczewski

Third row: Michael Pönipp, Carola Schwirn, Angelika Gifford, Wolfgang Flintermann

Second row: Janis Carol Kong, Anette Strempel, Ortwin Strubelt, Prof. Edgar Ernst

Front row: Valerie Frances Gooding, Prof. Klaus Mangold (Chairman), Frank Jakobi (Vice Chairman), Carmen Riu Güell, Sir Michael Hodgkinson (Vice Chairman)

Member not in the photo: Alexey Mordashov business developments and key transactions in the Company between Supervisory Board meetings.

Deliberations in the Supervisory Board and its Committees

Prior to Supervisory Board meetings, the shareholder representatives on the Supervisory Board and the employees' representatives met in separate meetings, which were regularly also attended by Executive Board members.

Apart from the full Supervisory Board, a total of five committees were in place in the completed financial year: the Presiding Committee, Audit Committee, Strategy Committee, Nomination Committee and Integration Committee. The Mediation Committee formed pursuant to section 27 (3) of the Co-Determination Act did not have to meet. The Chairman of each Committee provides regular and comprehensive reports about the work performed by the Committee at the ordinary Supervisory Board meetings.

In financial year 2017, we again recorded a gratifyingly high meeting attendance, as we have done for several years. Average attendance was 93.8 % (previous year 96.6 %) at plenary meetings and 97.6 % (previous year 90.7 %) at Committee meetings. No Supervisory Board member attended fewer than half of the Supervisory Board meetings in financial year 2017. Members unable to attend a meeting usually participated in the voting through proxies. Preparation of all Supervisory Board members was greatly facilitated by the practice of distributing documents in advance in the run-up to the meetings and largely dispensing with handouts at meetings.

Attendance at meetings of the Supervisory Board in financial year 2017

Attendance at meetings of the Supervisory Board 2017

Name	Supervisory Board	Presiding Committee	Audit Committee	Nomination Committee	Strategy Committee	Integration Committee
Prof. Klaus Mangold (Chairman)	8 (8)	8 (8)[1]	8 (8)	2 (2)[1]	6 (6)	1 (1)[1]
Frank Jakobi (Deputy Chairman)	8 (8)	8 (8)			6 (6)	1 (1)
Sir Michael Hodgkinson (Deputy Chairman)	8 (8)	7 (8)		2 (2)		1 (1)[2]
Andreas Barczewski	8 (8)		8 (8)			
Peter Bremme	7 (8)	7 (8)				
Prof. Edgar Ernst	8 (8)		8 (8)[1]			1 (1)
Wolfgang Flintermann	8 (8)					
Angelika Gifford	7 (8)				6 (6)	
Valerie Frances Gooding	7 (8)				5 (6)	1 (1)
Dr. Dierk Hirschel	7 (8)		8 (8)			
Janis Carol Kong	8 (8)		7 (8)			
Peter Long	7 (8)				6 (6)[1]	
Coline Lucille McConville	7 (8)		7 (8)			1 (1)
Alexey A. Mordashov	6 (8)	6 (8)		2 (2)	6 (6)	
Michael Pönipp	8 (8)		8 (8)			
Carmen Riu Güell	7 (8)	8 (8)		2 (2)		
Carola Schwirn	8 (8)					
Anette Strempel	8 (8)	8 (8)				
Ortwin Strubelt	8 (8)	8 (8)	8 (8)			
Stefan Weinhofer	7 (8)					
Attendance at meetings in %	**93.8**	**93.8**	**96.9**	**100.0**	**97.2**	**100.0**
Attendance at Committee meetings in %	**97.6**					

(In brackets: number of meetings held)
[1] Chairman of Committee
[2] Deputy Chairman of Committee

Key topics discussed by the Supervisory Board

The Supervisory Board held nine meetings focusing on the following issues:

1. At its meeting on 26 October 2016, the Supervisory Board discussed the current business performance. The discussions also focused on strategic options for the German TUI fly. In that context, we intensively deliberated on a potential joint venture with Etihad. The debate also related to the stake in Hapag-Lloyd AG (HLAG) and the status of the divestment process for Specialist Group. The Supervisory Board furthermore approved the budget for financial year 2017 and the acquisition of a stake in Peakwork Software.

2. At its extraordinary meeting on 23 November 2016, the Supervisory Board intensively discussed the status of negotiations and approval for the conclusion of a (non-binding) memorandum of understanding to form a joint venture between TUI fly and Etihad. These extensive deliberations focused on essential framework parameters and the future alignment of the planned joint venture.

3. At the extraordinary Supervisory Board meting on 1 December 2016, held in the form of a conference call, we adopted the personal performance factors for the annual performance bonuses for members of the Executive Board for financial year 2016 after due deliberation. Following an in-depth review, we also established the appropriateness of the remuneration and pensions for Executive Board members.

4. At its meeting on 7 December 2016, the Supervisory Board discussed in detail the annual financial statements of TUI Group and TUI AG, each having received an unqualified audit opinion from the auditors, the combined management report for TUI Group and TUI AG, the Report by the Supervisory Board, the Corporate Governance Report and the Remuneration Report. The discussions were also attended by representatives of the auditors. Following comprehensive debate of these reports and its own review carried out on the previous day by the Audit Committee, the Supervisory Board endorsed the findings of the auditors and approved the financial statements prepared by the Executive Board and the combined management report for TUI AG and the Group. The annual financial statements for 2016 were thereby adopted. Moreover, the Supervisory Board approved the Report by the Supervisory Board, the Corporate Governance Report and the Remuneration Report. It also adopted the invitation to the ordinary AGM 2017 and the proposals for resolutions to be submitted to the AGM. The Supervisory Board discussed various options relating to aircraft funding and the future approach to be adopted by the Group. We also resolved the 2016 declaration of compliance with the German Corporate Governance Code and the Corporate Governance Declaration required by the UK's Corporate Governance Code. We moreover decided to adjust our targets for the composition of the Supervisory Board (see Corporate Governance Report) and considered various reports, including a report on the results of our 2016 TUIgether employee survey, the implementation of the female and gender quotas in Germany, the IT strategy and security. In the framework of Executive Board matters, Frank Rosenberger was appointed as member of the Executive Board with effect from 1 January 2017 and a new business allocation plan reflecting the changes in the allocation of responsibilities to Board members was adopted. The Supervisory Board was also given a status report on I'tur and updates on the sales process for Travelopia and the joint venture between TUI fly and Etihad.

5. On 13 February 2017, the Supervisory Board mainly discussed TUI AG's interim statement and report for the quarter ended 31 December 2016 and prepared the 2017 Annual General Meeting. The Supervisory Board also discussed the structure of Executive Board remuneration. We dealt with the sales process for Hotelbeds Group, the business performance and future strategy for source market Germany and approved the final initiation of the sales process for Travelopia. The Supervisory Board also discussed the expansion of capacity at TUI Cruises GmbH and was given reports about the activities of the TUI Foundation and TUI Care Foundation. We were given a comprehensive update on the status of negotiations regarding the planned joint venture between TUI fly and Etihad (e.g. economic framework, open issues). We also adopted resolutions on transactions requiring the Supervisory Board's consent, including the issue of employee shares for financial year 2017 and the further sale of shares in HLAG. We were furthermore given a report on the status of the proceedings Erzberger versus TUI AG before the ECJ.

6. On 12 May 2017, we debated TUI AG's interim report for the second quarter ended on 31 March 2017 and the half-year financial report. We also resolved to extend the appointment of Sebastian Ebel as an Executive Board member and his service contract by a further three years. The Supervisory Board moreover discussed the initial approaches for a reform of the Executive Board remuneration system and we were given another status report on the negotiations regarding the planned joint venture between TUI fly and Etihad. The Supervisory Board was then given another update on a potential capacity expansion at TUI Cruises GmbH and the status of the sale of shares in HLAG. We also discussed on-going activities to strengthen IT security and various aspects related to the internal and external security structure. The Supervisory Board considered various Corporate Governance issues and was given a report on the state of pay regarding TUI Group's key litigation cases. The Supervisory Board was also informed about the current business performance and market in Turkey. We debated and deliberated on the impact of the Brexit referendum on the Group. Moreover, the Supervisory Board approved a number of transactions requiring its consent (including the issue of employee shares in financial year 2018, the extension of the revolving credit facility ahead of its due date and the sale of Travelopia subject to certain conditions).

7. At its extraordinary meeting on 29 June 2017, the Supervisory Board discussed the termination of the negotiations on the joint venture between TUI fly and Etihad and engaged in comprehensive and extensive debates with the Executive Board on the resulting options for a repositioning of TUI fly.

8. On 30 August 2017 (by written circulation), the Supervisory Board approved the increase in the Company's capital stock for the issue of employee shares under the oneShare employee share programme for financial year 2017.

9. During a two-day strategy offsite meeting on 13 and 14 September 2017, we intensively debated the key challenges surrounding the business model, growth opportunities, IT trends (e.g. blockchain technology), the Group-wide customer value and customer relationship management platform, uniform branding (oneBrand) and the cruise strategy.

   We then comprehensively debated the consolidated five-year plan. The discussions also focused on the insolvency of Air Berlin. We furthermore deliberated on Executive Board matters and adopted the fundamental structure of the new remuneration system for the Executive Board. We were also given reports on crisis management, the Security, Health & Safety structure and the security of our customers and employees. We heard a report on the effects of the Transparency of Remuneration Act and the implementation of the Act and dealt with succession planning for the Executive Board and professional development at the top management level. We also discussed the new CSR reporting (see Management Report) and adopted diversity concepts for the composition of the Executive Board and Supervisory Board. We moreover adopted the overall competence profile for the full Supervisory Board. We then adopted resolutions regarding transactions requiring our consent (including the granting of a guarantee as collateral for a loan).

Meetings of the Presiding Committee

The Presiding Committee takes the lead on various Executive Board issues (including succession planning, new appointments, terms and conditions of service contracts, proposals for the remuneration system). It also prepares the meetings of the Supervisory Board. In the period under review, the Presiding Committee held nine meetings.

Members of the Presiding Committee:

- Prof. Klaus Mangold (Chairman)
- Peter Bremme
- Carmen Riu Güell
- Sir Michael Hodginson
- Frank Jakobi
- Alexey Mordashov
- Anette Strempel
- Ortwin Strubelt

1. At its extraordinary meeting on 12 October 2016, the Presiding Committee intensively discussed the business interruption of the German TUI fly against the background of efforts undertaken by the Executive Board to find cooperation partners for the airline, which had become public. The Presiding Committee was given a presentation on the measures initiated by the Executive Board and the status and timeframe of negotiations relating to the cooperation partner project.

2. At its meeting on 26 October 2016, the Presiding Committee discussed Executive Board issues, including deliberations on the creation of a new Executive Board function with a focus on IT and new markets. The Committee also discussed various topics relating to Executive Board remuneration for the completed financial year and the current financial year.

3. At its extraordinary meeting on 23 November 2016, the Presiding Committee discussed the status of the negotiations about the joint venture between TUI fly and Etihad. We also deliberated on various Executive Board issues and adopted resolutions regarding the variable annual remuneration for financial year 2016. We then reviewed the appropriateness of Executive Board remuneration and pensions and discussed the terms and conditions of the service contract for Frank Rosenberger.

4. At its meeting on 6 December 2016, after due deliberation, the Presiding Committee recommended the appointment of Frank Rosenberger as an Executive Board member to the Supervisory Board and discussed further Executive Board issues.

5. On 13 February 2017, the Presiding Committee again discussed the status of negotiations on the joint venture between TUI fly and Etihad as well as the Group's major litigation cases and the divestment process for Travelopia. We then formulated approaches for a fundamental revision of the compensation system for the Executive Board.

6. At its meeting on 12 May 2017, the Presiding Committee discussed renewing the appointment of Sebastian Ebel and the status of the reform of the remuneration system for the Executive Board. Following the abolition of the Integration Committee in December 2016, we were given a report on the merger-related synergies and intercultural integration.

7. At an extraordinary meeting on 13 June 2017, by written circulation, the Presiding Committee granted approval to Friedrich Joussen to join the Supervisory Board of Sixt SE / Pullach.

8. At an extraordinary meeting on 30 August 2017, the Presiding Committee intensively discussed the status of the reform of the remuneration system for the Executive Board.

9. On 13 September 2017, we discussed Executive Board issues. We were also informed about the remuneration structure for the management level below the Executive Board as well as HR development topics.

AUDIT COMMITTEE

Members of the Audit Committee:

- Prof. Edgar Ernst (Chairman)
- Andreas Barczewski
- Dr Dierk Hirschel
- Janis Kong
- Prof. Klaus Mangold
- Coline McConville
- Michael Pönipp
- Ortwin Strubelt

The Audit Committee held eight ordinary meetings in the financial year under review. For the tasks and the advisory and resolution-related issues discussed by the Audit Committee, we refer to the comprehensive report on page 15.

NOMINATION COMMITTEE

The Nomination Committee proposes suitable shareholder candidates to the Supervisory Board for its election proposals to the Annual General Meeting or appointment by the district court.

Members of the Nomination Committee, which held two meetings:

- Prof. Klaus Mangold (Chairman)
- Carmen Riu Güell
- Sir Michael Hodgkinson
- Alexey Mordashov

1. At its meeting on 11 May 2017, the Nomination Committee discussed the future composition of the shareholder side of the Supervisory Board and its committees.

2. At its meeting on 12 September 2017, the Nomination Committee again discussed the future composition of the shareholder side of the Supervisory Board.

STRATEGY COMMITTEE

The Strategy Committee was established on 9 February 2016 by resolution of the Supervisory Board. Its task is to advise the Executive Board in developing and implementing the corporate strategy. The Committee met six times in the financial year under review. Apart from Committee members, the meetings of the Strategy Committee are regularly attended by Sir Michael Hodgkinson.

The members of the Strategy Committee, which met six times, are:

- Peter Long (Chairman)
- Angelika Gifford
- Val Gooding
- Frank Jakobi
- Prof. Klaus Mangold
- Alexey Mordashov

1. At its meeting on 25 October 2016, the Supervisory Board extensively dealt with the Group's aviation strategy and the future positioning of TUI fly. We also discussed various aspects related to Customer Relationship Management (CRM) and IT investments.

2. At its meeting on 5 December 2016, the Committee discussed marketing topics, the divestment process for Travelopia and the aviation strategy.

3. On 17 February 2017, we deliberated on the growth of the Mein Schiff fleet and discussed the situation in source market Germany and the marketing strategy pursued in that market.

4. At its meeting on 11 May 2017, the Committee discussed the growth strategy for new markets with a special focus on Asia, in particular China. In that context, we intensively debated the expansion of cooperation schemes as well as TUI's own initiatives.

5. At the meeting on 15 August 2017, we again comprehensively debated the aviation strategy following the termination of the talks with Etihad on the creation of a joint venture.

6. At its meeting on 12 September 2017, the Strategy Committee discussed the impact of the insolvency of Air Berlin on our current business and future implications for our aviation strategy.

INTEGRATION COMMITTEE

The Integration Committee was established by the Supervisory Board for a period of two years after the completion of the merger between TUI Travel PLC and TUI AG (until December 2016). Its task was to advise and oversee the Executive Board during the integration process required after the merger.

Members of the Integration Committee:

- Prof. Klaus Mangold (Chairman)
- Sir Michael Hodgkinson (Deputy Chairman)
- Prof. Edgar Ernst
- Valerie Gooding
- Frank Jakobi
- Coline McConville

At its only meeting in the period under review, which was also its last, held on 6 December 2016, the Committee discussed the final report on the integration process and the post-merger synergies. Overall, the Committee has rendered a valuable contribution to the delivery of the synergies and the success of cultural integration.

CORPORATE GOVERNANCE

Due to the primary quotation of the TUI AG share on the London Stock Exchange and the constitution of the Company as a German stock corporation, the Supervisory Board naturally also regularly and comprehensively deals with the recommendations of German and British corporate governance. Apart from the mandatory observance of the rules of the German Stock Corporation Act (AktG), German Industrial Co-Determination Act (MitbestG), the Listing Rules and the Disclosure and Transparency Rules, TUI AG had announced in the framework of the merger that the Company was going to observe both the German Corporate Governance Code (DCGK) and – as far as practicable – the UK Corporate Governance Code (UK GCG).

For the DCGK – conceptually founded, inter alia, on the German Stock Corporation Act – we issued an unqualified declaration of compliance for 2017 pursuant to section 161 of the German Stock Corporation Act, together with the Executive Board. By contrast, there are some deviations from the UK CGC due for the most part to the different concepts underlying a one-tier management system for a public listed company in the UK (one-tier board) and the two-tier management system comprised of Executive Board and Supervisory Board in a stock corporation based on German law.

More detailed information on corporate governance, the declaration of compliance for 2017 pursuant to section 161 of the German Stock Corporation Act and the declaration on the UK CGC is provided in the Corporate Governance Report in the present Annual Report, prepared by the Executive Board and the Supervisory Board (page 99), as well as on TUI AG's website.

Conflicts of interest

In the period under review, the Supervisory Board continuously monitored the occurrence of conflicts of interest. In the framework of the transactions requiring its consent, the Supervisory Board approved, at its meeting on 12 May 2017, the granting of a guarantee by TUI AG as third-party security for Togebi Holdings Limited ('TUI Russia') before a court in Turkey to initiate a lawsuit. TUI Russia is indirectly controlled by Alexey Mordashov. Mr Mordashov is a member of the Supervisory Board and abstained from voting in order to avoid a conflict of interest.

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

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited the annual financial statements of TUI AG prepared in accordance with the provisions of the German Commercial Code (HGB), as well as the joint management report of TUI AG and TUI Group, and the consolidated financial statements for the 2017 financial year prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), and issued their unqualified audit certificate. The above documents, the Executive Board's proposal for the use of the net profit available for distribution and the audit reports by the auditors had been submitted in good time to all members of the Supervisory Board. They were discussed in detail at the Audit Committee meeting of 11 December 2017 and the Supervisory Board meeting of 12 December 2017, convened to discuss the annual financial statements, where the Executive Board provided comprehensive explanations of these statements. At those meetings, the Chairman of the Audit Committee and the auditors reported on the audit findings, having determined the key audit areas for the financial year under review beforehand with the Audit Committee. Neither the auditors nor the Audit Committee identified any weaknesses in the early risk detection and internal control system. On the basis of our own review of the annual financial statements of TUI AG and TUI Group and the joint management report, we did not have any grounds for objections and therefore concur with the Executive Board's evaluation of the situation of TUI AG and TUI Group. Upon the recommendation of the Audit Committee, we approve the annual financial statements for financial year 2017; the annual financial statements of TUI AG are thereby adopted. We comprehensively discussed the proposal for the appropriation of profits with the Executive Board and approved the proposal in the light of the current and expected future financial position of the Group.

Executive Board, Supervisory Board and committee membership

The composition of the Executive Board and Supervisory Board as at 30 September 2017 is presented in the tables on pages 100 – 101 for the Supervisory Board and page 102 for the Executive Board.

In financial year 2017, the composition of the boards did not change.

At the meeting on 7 December 2016, Frank Rosenberger was appointed to the Executive Board with effect from 1 January 2017 for a period of three years.

At the meeting on 12 May 2017, the appointment of Sebastian Ebel as an Executive Board member was extended by three years to 30 November 2020.

In addition, the Supervisory Board extended the appointments of David Burling and Dr Elke Eller. After the extensions became effective on 12 December 2017, David Burling is now appointed until 31 May 2021 and Dr Elke Eller is appointed until 14 October 2021.

Word of thanks

The Supervisory Board warmly thanks the Executive Board, the managers and all employees for their contribution to the very successful financial year 2017.

Hanover, 12 December 2017

On behalf of the Supervisory Board

Prof. Klaus Mangold
Chairman of the Supervisory Board

AUDIT COMMITTEE REPORT

Dear Shareholders,

as the Audit Committee, it is our job to assist the Supervisory Board in carrying out its monitoring function during the financial year, particularly in relation to accounting and financial reporting for the TUI Group, as required by legal provisions, the German Corporate Governance Code and the Supervisory Board Terms of Reference.

In addition to these core functions, we are responsible in particular for monitoring the effectiveness and proper functioning of internal controls, the risk management system, the Group Auditing department and the legal compliance system.

Furthermore, the Audit Committee is responsible for selecting external auditors. The selected auditors are then required to be put forward by the Supervisory Board to the Annual General Meeting for appointment. Following the appointment by the Annual General Meeting, the Supervisory Board formally commissions the external auditors with the task of auditing the annual financial statements and consolidated financial statements and reviewing the quarterly interim reports.

The Audit Committee was elected by the Supervisory Board directly after the Annual General Meeting 2016 and consists currently of the following eight Supervisory Board members:

- Prof. Edgar Ernst (Chairman)
- Andreas Barczewski
- Dr Dierk Hirschel
- Janis Kong
- Prof. Klaus Mangold
- Coline McConville
- Michael Pönipp
- Ortwin Strubelt

The membership of the Audit Committee members corresponds to the duration of their appointment to the Supervisory Board. There are no personnel changes to report in the composition of this committee since the last election.

Both the Chairman of the Audit Committee and the remaining members of the Audit Committee are seen by the Supervisory Board as meeting the criterion of being independent. In addition to the Chairman of the Audit Committee, at least one other member is required to have expertise in the field of accounting and experience in the use of accounting principles and internal control systems.

The Audit Committee has six regular meetings a year, and additional topic-specific meetings may also be convened. From this financial year onwards, these topic-specific meetings have included two meetings in which the Executive Board explains to the Audit Committee the key content of the pre-close trading updates published shortly before the reporting date of the annual and six-monthly financial statements. The remaining meeting dates and agendas are geared in particular towards the Group's reporting cycle and the agendas of the Supervisory Board.

The Chairman of the Audit Committee reports on the work of the Audit Committee and the proposals it has to make in the Supervisory Board meeting that follows each Audit Committee meeting.

Apart from the Audit Committee members, the meetings have been attended by the Chairman of the Executive Board, the CFO and the following management members, based on the topics covered:

- Director of Group Financial Accounting
- Director of Group Audit
- Director of Group Compliance & Risk
- Director of Group Treasury & Insurance

The external auditors have also been invited to meetings on relevant topics. Wherever required, additional members of TUI Group senior management and operational management have been asked to attend Audit Committee meetings, as have external consultants.

Where it was deemed necessary to go into further detail on specific topics or cases, the Chairman of the Audit Committee held – in addition to Audit Committee meetings – individual meetings with the relevant Executive Board, senior management or auditor representatives. The Chairman of the Audit Committee reported on the key findings and conclusions from these meetings in the next Audit Committee meeting.

The members took part in the Audit Committee meetings as shown in the table on page 10.

Transfer of the audit mandate for TUI AG and the TUI Group

By way of a resolution of the Annual General Meeting of TUI AG dated 14 February 2017, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (Deloitte) was elected as the auditor of TUI AG and the TUI Group. We were regularly notified about the transfer process of the audit mandate to Deloitte at our meetings during the financial year.

Up to the point of the Annual General Meeting, the mandate was granted to PriceWaterhouseCoopers AG, who were thus responsible for the audit of the first quarterly financial statements. This responsibility passed to Deloitte from the second quarter onwards.

The transfer process proceeded professionally and smoothly during the financial year. The experience gathered thus far with Deloitte as an auditor also confirms that we have gained a reliable partner for the audit in Deloitte.

Reliability of financial reporting and monitoring of accounting process

The Executive Board of a German stock corporation (Aktiengesellschaft) is solely responsible for preparing its Annual Report & Accounts (ARA). Section 243(2) of the German Commercial Code (HGB) requires the ARA to be clearly structured and to give a realistic overview of the company's financial situation. This is equivalent to the requirement of the UK Code for the ARA to be fair, balanced and understandable. Even though the evaluation of this requirement has not been transferred to the Audit Committee, the Executive Board is comfortable that the submitted ARA satisfies the requirements of both legal systems.

In order to be sure ourselves of the reliability of both the annual financial statements and interim (quarterly) reporting, we have requested that the Executive Board inform us in detail about the Group's business performance and its financial situation. This was done in the four Audit Committee meetings that took place directly before the financial statements in question were published. In these meetings, the relevant reports were discussed and the auditors also reported in detail on key aspects of the financial statements and on the findings of their audit or review.

In order to monitor accounting, we examined individual aspects in great detail. In addition, the accounting treatment of key balance sheet items were reviewed, in particular goodwill, advance payments for tourism services and other provisions. In consultation with the auditors, we made certain that the assumptions and estimates underlying the balance sheet were appropriate. In addition, any material legal disputes and key accounting issues arising from the operating businesses were assessed by the Audit Committee.

In the period under review, we concerned ourselves above all with the following individual subjects:

Owing to the existing geopolitical risks, we stipulated that each of the quarterly financial statements be accompanied by a report on the effects on earnings, the risks from guarantee and advance payment mechanisms related to Group and third-party hotels in Turkey and North Africa and about the countermeasures being undertaken.

The potential exit of the United Kingdom from the European Union was repeatedly an agenda item at our meetings. In particular, we listened to reports about the risks connected to the exit. For instance, effects are expected on the British airlines regarding flight rights within the European Union, not to mention the impact of a sustained weakness of sterling on the cost structure of the British tour operators.

After the announcement of the plan to set up a European charter airline with the involvement of TUI fly, huge flight cancellations resulted due to sickness notifications from pilots and cabin staff. We obtained extensive information on the reasons and above all the economic effects of this incident.

Similarly, we gathered information about the large corporate transactions of the financial year. This included not only the acquisition of the French Transat Group but also the sale of the Travelopia Group and the shares in Hapag-Lloyd AG. Furthermore, we also examined TUI's investing activity in the following areas: Airlines, Hotels & Resorts, Cruises and IT. We had the key investments within the Group divisions and the contributions to earnings from these investments explained to us.

The Audit Committee also discussed the going concern and viability statement analysis prepared by the company to support the statements made in the half-year report and the ARA.

Starting with financial year 2018, the management report must contain information on corporate social responsibility (CSR). The management decided to publish the respective information already for this financial year. We had the management tell us about the state of implementation and the content of the report as the responsibility for the review of the content lies with the Supervisory Board.

In addition, the consistency of the reconciliation from profit before tax to the key figure 'underlying earnings' and the material adjustments were discussed for all quarterly reports and for the annual financial statements.

Our evaluation of all discussed aspects of accounting and financial reporting has been in line with that of both management and the Group auditors.

Effectiveness of internal controls and the risk management system

The Audit Committee recognises that a robust and effective system of internal control is critical to achieving reliable and consistent business performance. To fulfil its legal obligation to examine the effectiveness of internal controls and the risk management system, the Audit Committee is informed regularly about their current status and also about the further development of them.

The Group has continued to evolve its internal control framework which is underpinned by the COSO concept. Regular testing by management of the key financial controls is now a matter of routine in the larger businesses, and in our two largest Source Markets (UK and Germany) more widespread testing of internal controls is conducted.

Within the Group, the compliance function is further broken down into three areas: Finance, Legal and IT. These teams play a crucial role in improving controls across the Group and identifying areas where more focus is required. The Group auditors also report to us on any weaknesses they find in the internal control system of individual Group companies, and management tracks these items to ensure that they are addressed on a timely basis.

As stated on page 30 of the risk report, the Audit Committee receives regular reports on the performance and effectiveness of the risk management system. The Risk Oversight Committee is an important management committee within the Group and we are satisfied that there is appropriate, active management of risk throughout the Group.

The Group Audit department ensures the independent monitoring of implemented processes and systems as well as of core projects and reports directly to the Audit Committee in each regular meeting. In the period under review, the Audit Committee was not provided with any audit findings indicating material weaknesses in internal controls or the risk management system. As well as this, talks are held regularly between the Chairman of the Audit Committee and the Director of Group Audit for the purposes of closer consultation.

The audits planned by the Group Audit department for the following year were presented to the Audit Committee in detail, discussed and approved. The Audit Committee feels that the effectiveness of the Group Audit department is ensured through this regular consultation.

The legal compliance system was examined by third-party experts which confirmed the suitability of the compliance approach. The Groupwide, uniformly implemented system was presented to us and we received a report about the conducted risk analysis and the measures derived from it. In addition to the core elements of the internal control and risk management system, the Group's hedging policy was part of the reporting to us during the year.

Whistleblower systems for employees in the event of compliance breaches

Whistleblower systems have been set up across the Group to enable employees to draw attention to potential breaches of compliance guidelines.

Reporting on the legal compliance system included information about the groupwide standardisation of these whistleblower systems and we were also shown the main findings during the current financial year from this system.

Examination of auditor independence and objectivity

After finalisation of the tender process in the financial year 2016, the Audit Committee recommended to the Supervisory Board that it propose Deloitte to the Annual General Meeting as auditors for financial year 2017 as well. Following the commissioning of Deloitte as auditors by the Annual General Meeting in February 2017, the Supervisory Board appointed Deloitte with the task of auditing the 2017 annual financial statements and reviewing the half-year financial statements as per 31 March 2017.

The Chairman of the Audit Committee discussed with Deloitte in advance the audit plan for the annual financial statements as at 30 September 2017, including the key areas of focus for the audit and the main companies to be audited from the Group's perspective. Based on this, the Audit Committee firmly believes that the audit has taken into account the main financial risks to an appropriate degree and is satisfied that the auditors are independent and objective in how they conduct their work.

The audit fees were explained in the context of this selection process and we are convinced that the amount of these costs is reasonable. Based on the regular reporting by the auditors, we have every confidence in the effectiveness of the external audit.

In order to ensure the independence of the auditors, any non-audit services to be performed by the auditors must be submitted to the Audit Committee for approval before commissioning. Depending on the amount involved, the Audit Committee makes use of the option of delegating the approval to the company. The Audit Committee Chairman is only involved in the decision once a specified cost limit has been reached. Insofar as the auditor has performed services that do not fall under the Group audit, the nature and extent of these have been explained to the Audit Committee. This process complies with the company's existing guideline regarding the approval of non-audit services and it takes into account the requirements from the AReG regulations on prohibited non-audit services and on limitations of the scope of non-audit services. In financial year 2017, these non-audit services accounted for 7 % of the auditor's overall fee of € 9.1 million.

I would like to take this opportunity to thank the Audit Committee members, the auditors and the management for their hard work over the past financial year.

Hanover, 11 December 2017

Prof. Edgar Ernst
Chairman of the Audit Committee

Croatia and Montenegro. The two Balkan states have recently developed into high-growth travel destinations, making them interesting settings for new TUI hotels. An experienced scout visits the area to check out potential sites and properties. Top of his evaluation criteria: location.

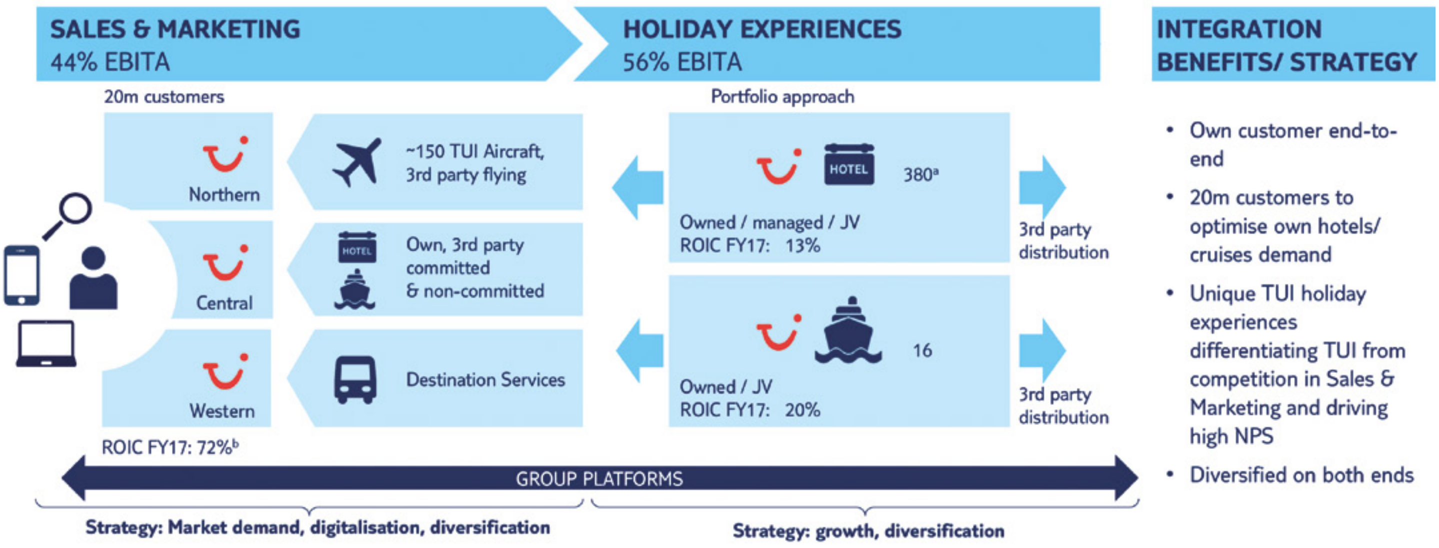
READ MORE ABOUT THE WORK OF OUR HOTEL SCOUT IN THE MAGAZINE UNDER 'PEARL DIVER'

Combined Management Report*

* The present combined Management Report has been drawn up for both the TUI Group and TUI AG. It was prepared in accordance with sections 289, 315 and 315 (a) of the German Commercial Code (HGB) and German Accounting Standards (DRS) numbers 17 and 20.

The combined Management Report also includes the Remuneration Report, the Corporate Governance Report and the Financial Highlights.

Business model and strategy



[a] This number includes concept hotels and 3[rd] party concept hotels

[b] This number relates to Sales & Marketing / all other

Our Business Model

TUI is the world's leading tourism group – an integrated business that operates in all stages of the customer's holiday journey.

We deliver the full customer experience from inspiration and booking through the travel journey to the experience in the destination. We fulfil this through our own hotel and cruise brands, third party committed and non-committed accommodation as well as destination services, such as transfers and excursions. Hence, we set ourselves apart from component-only players as we are able to enhance the customer experience throughout the holiday.

Our integrated model allows us to leverage the distribution power of our source markets and to optimise customer volumes for our own assets. At the same time, offering differentiated and controlled products, we drive demand in our source markets and create entry barriers. Thus, we maximise yields while minimising risk with our integrated approach.

Our Segment Strategy

Sales & Marketing: Market demand, digitalisation and diversification

Across three regions (Northern, Central and Western) we use our distribution and fulfilment power to serve 20 m customers. Our business model allows our source markets to act with maximum flexibility, allowing them to create personalised packages for our customers while optimising yield and minimising risks through combining both owned as well as 3rd party aviation, hotel and cruise capacity.

Our Employees

Qualified and committed employees are a major prerequisite for TUI's long-term success. One of the key elements of our global HR strategy, therefore, is to attract and promote people with talent and to retain them by offering attractive employment conditions.

It is our staff who breathe life into our corporate values 'Trusted', 'Unique' and 'Inspiring'. Alongside our vision and our customer promise, they form the basis for our attitudes and actions.

Our employee survey TUIgether, which was carried out in in the period under review is a crucial yardstick, showing us our strengths and areas for potential improvements, so that we can improve the corporate performance and make TUI an even more attractive employer. The survey measures the Engagement Index of TUI Group, which is 77 in this year's cycle.

Further information about our employees and our sustainability strategy can be found on page 81.

Our in-house aviation with around 150 aircraft allows us to utilise own flight capacity in conjunction with own hotel capacity in order to build high profile destinations, such as Cape Verde. In these destinations, we provide unique experiences to our customers and create high barriers of entry by managing both hotel capacity and flight availability. In addition, our airline allows for flexibility in destination planning, as we are in the position to shift capacities and change routes according to our business needs.

Destination Services, our own incoming agency, provides fulfilment services to our customers such as hotel transfers but also offers experiences in the destinations such as excursions.

Our Sales and Marketing business is well positioned to benefit from continued tourism market growth. In 2017 we have accelerated our digitalisation efforts and inter alia launched two important IT-initiatives: One CRM and One Inventory Base & One Purchasing.

Customer knowledge is key to provide outstanding holiday experiences that result in satisfied and loyal customers. One CRM, building on a shared customer data base drives our knowledge of our customers and therefore enables us to build direct and personalised relationships. Using automated machine learning and analytical capabilities, we share our customer insights with the wider business and enable personalised marketing, sales and services. We are now able to provide individualised experiences, which in turn are expected to lead to cross- and up-selling opportunities. Last but not least, we develop retention propositions based on our enhanced knowledge, thereby driving emotional loyalty and engagement with our brand.

Building on the Blockchain technology, we are striving to centralise our inventory on one database, namely, One Inventory / One Purchasing. Own and third party hotel bed capacity is being incorporated in the data base, which is accessible for all source markets. An Artificial Intelligence system creates suggestions on the respective bed capacity allocation and / or bed swap to the source markets based on customer demand, allowing TUI to optimise yields. Blockchain as an underlying technology ensures transparency and trust as well as an immutable tracking of ownership. Suppliers can be on-boarded easily, including new partners from all over the world.

Holiday experiences: Grow and diversify in the hotel and cruise business

TUI's hotel portfolio entails 380 hotels, operating under a concept, ownership, lease, management or franchise model. We differentiate with our own brands Robinson, TUI Magic Life and TUI Blue, as well as with our successful joint venture brands, such as Riu. TUI branded hotels show high customer satisfaction and revenue per customer, signalling the attractiveness to our customers.

Since the merger we concluded three non-core business disposals, namely Travelopia, Hotelbeds and the shareholding in Hapag-Lloyd AG. We intend to reinvest the disposal proceeds mainly into our hotel and cruise business, thereby further growing and diversifying our portfolio and pursuing on average a target ROIC of 15 % for new investments. Redeploying capital to our holiday experience businesses will enhance our capital return and will reduce the cyclicality of our cash flow profile.

On the hotel side, in line with our existing portfolio, we intend to grow predominantly our low capital intensity share, i.e. through management contracts or through Joint Verntures. In unique destinations or in destinations with an all-year round business, we perceive ownership to be a superior strategy.

Further, we focus on diversifying our portfolio geographically by growing our Caribbean and Asian destinations, while strengthening our core destinations in Europe.

In our cruise segment, we operate a fleet of 16 cruise ships under three cruise lines, namely our TUI Cruises Joint Venture, Marella Cruises and Hapag-Lloyd Cruises. Each cruise business is dedicated to a specific audience and tailors its concept accordingly, with TUI Cruises and Marella Cruises focusing on local mainstream customers and Hapag-Lloyd offering luxury and expedition experiences.

The demand in our distinct market segments relevant for our target customers remains very strong. Despite capacity growth, occupancy of our cruise ships remains at above 100 % in the mainstream market at stable prices, allowing us to further enhance capacity by expanding our fleet.

Summary

Three years after the merger, we are a stronger, integrated and strategically better positioned business. The merger synergies are fully delivered.

Looking ahead we continue to expect to deliver double digit annual earnings growth with less seasonality, strong cash conversion[1] and strong ROIC performance. This will be driven by market demand, digitalisation benefits and disciplined expansion of own hotel and cruise content.

We therefore expect to deliver at least 10 % growth in underlying EBITA in financial year 2018[2] and extend our previous guidance of at least 10 % underlying EBITA CAGR to financial year 2020[1].

The Executive Board and the Supervisory Board are recommending a dividend of 65 cents per share in respect of the financial year 2017. Subject to approval at the Annual General Meeting on 13 February 2018, shareholders who held relevant shares at close of business on 13 February 2018 will receive the dividend on 16 February 2018.

Further financial targets are achieving a leverage ratio 3.00 to 2.25 times and an interest coverage 5.75 to 6.75 times.

[1] We define our cash conversion as the Group's EBITDA less our long-term gross capex target in relation to the Group's EBITDA.

[2] Assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current Group structure.

CORPORATE PROFILE

How we do it – Group structure

TUI GROUP

SALES & MARKETING	HOLIDAY EXPERIENCES	OTHER
• *Northern Region* • *Central Region* • *Western Region*	• *Hotels & Resorts* • *Cruises*	• *Other Tourism* • *All other segments*

TUI AG parent company

TUI AG is TUI Group's parent company headquartered in Hanover and Berlin. It holds direct or, via its affiliates, indirect interests in the principal Group companies conducting the Group's operating business in individual countries. Overall, TUI AG's group of consolidated companies comprised 259 direct and indirect subsidiaries at the balance sheet date. A further 13 affiliated companies and 28 joint ventures were included in TUI AG's consolidated financial statements on the basis of at equity measurement.

For further details on principles and methods of consolidation and TUI Group shareholdings see pages 143 and 233.

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 in governing and monitoring the Company. The Executive Board is responsible for the overall management of the Company.

The appointment and removal of Board members is based on sections 84 et seq. 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 et seq. of the German Stock Corporation Act in combination with section 24 of TUI AG's Articles of Association.

EXECUTIVE BOARD AND GROUP EXECUTIVE COMMITTEE

At the balance sheet date, the Executive Board of TUI AG consisted of the CEO and five other Board members.

For details on Executive Board members see page 102

A Group Executive Committee was set up in order to manage TUI Group strategically and operationally. As at 30 September 2017, the Committee consisted of twelve members who meet under the chairmanship of CEO Friedrich Joussen.

TUI Group structure

TUI Group's core businesses, Sales & Marketing and Holiday Experiences, are clustered into the segments Northern, Central and Western Region, Hotels & Resorts and Cruises. TUI Group also comprises Other Tourism and All other segments.

SALES & MARKETING

With our three regions Northern, Central and Western Region, we have well positioned sales and marketing structures providing more than 20 million customers a year with exceptional holiday experiences. Our sales activities are based on online and offline channels that also benefit from TUI's strong market position. The travel agencies include Group-owned agencies as well as joint ventures and agencies operated by third parties. Thanks to our direct customer access, we are able to build close relationships with our guests, and in future this will allow us to gear their entire holiday experience even more closely to their personal wishes and preferences, giving us a crucial advantage over our competitors. In order to offer our customers a wide choice of hotels, our

Sales & Marketing organisations have access to the exclusive portfolio of TUI hotels. They also have access to third-party bed capacity, some of which have been contractually committed.

Our own flight capacity continues to play a key role in our integrated business model. A combination of owned and third-party flying capacity enables us to offer tailor-made travel programmes for each individual source market region and to respond flexibly to changes in customer preferences. Thanks to the balanced management of flight and hotel capacity, we are able to develop high-profile destinations and optimise the margins of both service providers. In financial year 2017, we continued to deliver our internal efficiency enhancement programme at one Aviation, delivering further economies of scale. This has secured the continued competitiveness of our airlines despite challenging market conditions. With our fleet of around 150 aircraft, we rank among the top 10 European airlines in terms of size and are by far the largest charter company. By introducing 737MAX aircraft in 2018, we will continue our strategy of operating a modern, fuel-efficient fleet, which began with the 787 Dreamliner.

NORTHERN REGION

The Northern Region segment comprises Sales & Marketing activities and airlines in the UK, Ireland and the Nordics. In addition, the Canadian strategic venture Sunwing and the joint venture TUI Russia have been included within this segment. In the period under review, the hotel operator Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados, previously carried under Northern Region, was integrated into our hotel business and is now carried in Hotels & Resorts. Moreover, the British cruise business Marella Cruises (operated under the brand Thomson Cruises until October 2017), previously also carried under Northern Region, was reclassified to the Cruises segment.

CENTRAL REGION

The Central Region segment comprises the sales and marketing activities and airlines in Germany and the Sales & Marketing activities in Austria, Switzerland and Poland.

WESTERN REGION

The sales and marketing activities and airlines in Belgium, the Netherlands and the Sales & Marketing activities in France are included within the segment Western Region.

HOLIDAY EXPERIENCES

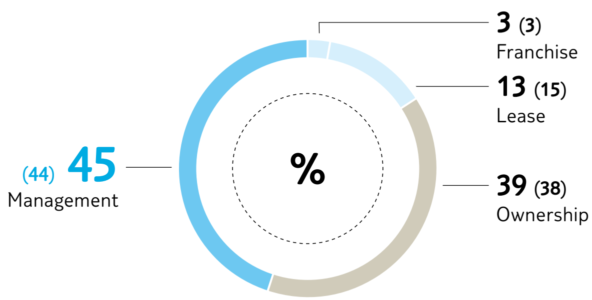
Holiday Experiences comprise our hotel and cruises activities.

HOTELS & RESORTS

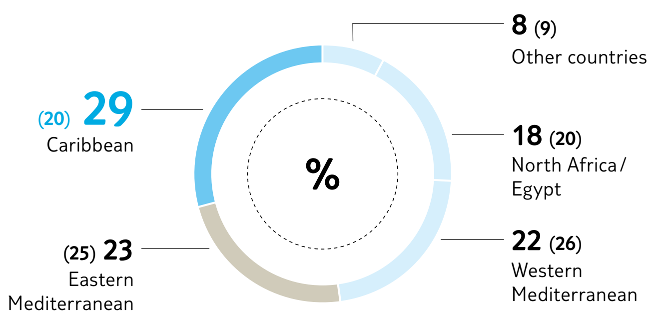
The Hotels & Resorts segment comprises TUI Group's diversified portfolio of Group hotel brands and hotel companies. The segment includes ownership in hotels, joint ventures with local partners, stakes in companies giving TUI a significant influence, and hotels operated under management contracts.

In financial year 2017, Hotels & Resorts comprised a total of 327 hotels with 238,775 beds. TUI Group also comprised 53 concept hotels operated by third-parties under the TUI concepts TUI Sensatori, TUI Sensimar and TUI Family Life.

Hotels & Resorts financing structure



Hotels & Resorts beds per region



In brackets: previous year

Riu

Riu is the largest hotel company in the portfolio of Hotels & Resorts. The Majorca-based company has a high proportion of regular customers and stands out for its professionalism, proven quality and excellent service. Most of the hotels are in the premium and comfort segments and they are predominantly located in Spain, Mexico and the Caribbean.

Robinson
Robinson, the leading provider in the German-speaking premium club holiday segment, is characterised by its professional sport, entertainment and event portfolio. Moreover, the clubs offer high-quality hotel amenities, excellent service and spacious architecture. Most of the hotels are located in Spain, Greece, Turkey, the Maledives and Austria. The facilities are also aspirational in terms of promoting sustainable development and signing up to specific environmental standards.

Blue Diamond
In the period under review the hotel operator Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados, has been integrated into the Hotel & Resorts segment. It was previously carried under Northern Region. Blue Diamond is a fast growing resort chain in the Caribbean with a unique approach of tailoring hotels to meet the highest expectations.

Other hotel companies and concept hotels
Other hotel companies include in particular the Group's other core brands TUI Blue and TUI Magic Life, the hotels of the Grupotel and Iberotel brands as well as our exclusive hotel concepts TUI Sensimar, TUI Sensatori and TUI Family Life. They provide holidays in top locations in our destinations and meet high performance, quality and environmental standards.

CRUISES
The Cruises segment consists of Hapag-Lloyd Cruises and the joint venture TUI Cruises. In the period under review, the British cruise business Thomson Cruises, previously managed within Northern Region, was reclassified to the Cruises segment. In October 2017 Thomson Cruises was rebranded to Marella Cruises. With their combined fleet of 16 vessels, the three cruise lines offer different service concepts to serve different target groups.

Cruise Fleet By Ownership Structure

	Owned	Finance Lease	Operating Lease	Total
TUI Cruises (JV)	6	–	–	6
Marella Cruises*	1	3	2	6
Hapag-Lloyd Cruises	3	–	1	4

As at 30 September 2017
* Previously operated under the brand Thomson Cruises

TUI Cruises
Hamburg-based TUI Cruises is a joint venture formed in 2008 between TUI AG and the US shipping company Royal Caribbean Cruises Ltd., in which each partner holds a 50% stake. With six ships, TUI Cruises is top-ranked in the German-speaking high-volume premium market for cruises. The Berlitz Cruise Guide rated Mein Schiff 3, Mein Schiff 4, Mein Schiff 5 and Mein Schiff 6 among the world's five best liners in the category 'Large Ships'.

Marella Cruises
Marella Cruises, previously operated under the brand Thomson Cruises, offers voyages for different segments in the British market. Its fleet includes the Marella Discovery, named in June 2016, and the Marella Discovery 2, launched in May 2017.

Hapag-Lloyd Cruises
Hapag-Lloyd Cruises is based in Hamburg, and it holds a position of leadership in the German-language market with its fleet of four liners in the luxury and expedition cruise segments. Its flagships are the vessels Europa and Europa 2, which were again awarded the five-star-plus category by the Berlitz Cruise Guide and are the world's only ships to be recognised in this way. The expedition vessels include the Hanseatic and the Bremen.

OTHER TOURISM
Other Tourism comprises central functions such as IT, one Aviation and the French airline Corsair. This segment also includes destination services, catering to the needs of around 12 million customers in about 115 destinations around the world.

ALL OTHER SEGMENTS
The category 'All other segments' includes our business activities for the new markets, the corporate centre functions of TUI AG and the interim holdings, as well as the Group's real estate companies.

The final remaining stake in Hapag-Lloyd AG, container shipping was disposed on 10 July 2017 after some stakes had already been sold in the market.

DISCONTINUED OPERATIONS
In financial year 2017, Specialist Group carried under discontinued operations in previous year, comprised the tour operator activities pooled under Travelopia, above all providing expedition trips, luxury travel, trips to sports events, student travel and sailing trips. The language travel segment had already been sold in the prior financial year. Crystal Ski and Thomson Lakes & Mountains, which had previously also formed part of Specialist Group, were reclassified to Northern Region and integrated into TUI UK's business at the beginning of financial year 2017, as they have strong synergies and deliver exciting travel experiences.

The sale of Specialist Group (Travelopia) to Kohlberg Kravis Roberts (KKR) was completed on 15 June 2017.

Research and development

As a tourism service provider, the TUI Group does not engage in research and development activities comparable with manufacturing companies. This sub-report is therefore not prepared.

How we measure it – value-oriented Group management

Management system and Key Performance Indicators

As the world's leading tourism group with one global brand, an attractive hotel portfolio, a growing cruise business, a modern and efficient aircraft fleet and direct access to 20 million customers, we aim to secure our vertically integrated business model by means of profitable growth and achieve a sustainable increase in the value of the TUI Group.

A standardised management system has been created to implement value-driven management across the Group as a whole and in its individual business segments. The value-oriented management system is an integral part of consistent Group-wide planning and controlling processes.

Key management variables used for regular value analysis are Return On Invested Capital (ROIC) and Economic Value Added. ROIC is compared with the segment-specific cost of capital. ROIC is calculated as the ratio of underlying earnings before interest, taxes and amortisation of goodwill (underlying EBITA) to average invested interest-bearing invested capital (invested capital) for the segment.

Our definition of EBITA is earnings before interest, income tax and impairment of goodwill and excluding the result from the measurement of interest hedges.

In order to explain and measure TUI Group's operating performance, we use underlying EBITA. The underlying EBITA has been adjusted for gains on disposal of financial investments, expenses in connection with restructuring measures according to IAS 37, all effects of purchase price allocations, ancillary acquisition cost and conditional purchase price payments and other expenses for and income from one-off items. The one-off items carried as adjustments are income and expense items impacting or distorting the assessment of the operating profitability of the segments and the Group due to their level and frequency. These one-off items include major restructuring and integration expenses not meeting the criteria of IAS 37, major expenses for litigation, profit and loss from the sale of aircraft and other material business transactions of a one-off nature.

In the framework of our growth strategy, we aim to achieve an underlying EBITA CAGR of at least 10 % over the years to financial year 2020 (on a constant currency basis).

In order to follow the development of the business performance of our segments in the course of the year, we monitor the financial indicators turnover and EBITA, but also key non-financial performance indicators, such as customer numbers in our Sales & Marketing, and capacity or passenger days, occupancy and average prices in Hotels & Resorts and Cruises. In the framework of our sustainability reporting, we have also defined a target indicator for specific CO_2 emissions per passenger kilometre for our airlines. We measure achievement of that indicator on an annual basis.

→ *Information on operating performance indicators is provided in the sections on 'Segmental performance' and 'Non-financial declaration' and in the Report on Expected Developments*

Cost of capital

Cost of capital (WACC)

%	Hotels 2017	Cruises 2017	Sales & Marketing 2017	TUI Group 2017
Risk-free interest rate	1.25	1.25	1.25	1.25
Risk adjustment	6.23	5.44	5.41	5.64
Market risk premium	6.50	6.50	6.50	6.50
Beta factor[1]	0.9590	0.8373	0.8320	0.8672
Cost of equity after taxes	**7.48**	**6.69**	**6.66**	**6.89**
Cost of debt capital before taxes	2.09	2.09	3.52	2.95
Tax shield	0.52	0.04	0.81	0.62
Cost of debt capital after taxes	**1.57**	**2.05**	**2.71**	**2.33**
Share of equity[2]	84.70	64.80	63.56	69.46
Share of debt capital[2]	15.30	35.20	36.44	30.54
WACC after taxes[3]	**6.50**	**5.00**	**5.25**	**5.50**
Cost of equity before taxes	**9.59**	**6.80**	**8.12**	**8.36**
Cost of debt capital before taxes	**2.09**	**2.09**	**3.52**	**2.95**
Share of equity[2]	84.70	64.80	63.56	69.46
Share of debt capital[2]	15.30	35.20	36.44	30.54
WACC before taxes[3]	**8.50**	**5.25**	**6.50**	**6.75**

[1] Segment beta based on peer group, group beta based on weighted segment betas
[2] Segment share based on peer group, group share based on weighted segment shares
[3] Rounded to 1/4 percentage points

The cost of capital is calculated as the weighted average cost of equity and debt capital (WACC). While the cost of equity reflects the return expected by investors from TUI shares, the cost of debt capital is based on the average borrowing costs of the TUI Group. The cost of capital always shows pre-tax costs, i.e. costs before corporate and investor taxes. The expected return determined in this way corresponds to the same tax level as the underlying earnings included in ROIC.

ROIC and Economic Value Added

ROIC is calculated as the ratio of underlying earnings before interest, taxes and amortisation of goodwill (underlying EBITA) to the average for invested interest-bearing capital (invested capital) for the relevant segment or sector. Given its definition, this performance indicator is not influenced by any tax or financial factors and has been adjusted for one-off effects. From a Group perspective, invested capital is derived from liabilities, comprising equity (including non-controlling interests) and the balance of interest-bearing liabilities and interest-bearing assets. The cumulative amortisations of purchase price allocations are then added to the invested capital.

Apart from ROIC as a relative performance indicator, economic value added is used as an absolute value-oriented performance indicator. Economic Value Added is calculated as the product of ROIC less associated capital costs multiplied by interest-bearing invested capital.

ROIC and Value added TUI Group

€ million	Notes	2017	2016
Equity		3,533.7	3,248.2
Subscribed capital	(24)	1,501.6	1,500.7
Capital reserves	(25)	4,195.0	4,192.2
Revenue reserves	(26)	– 2,756.9	– 3,017.8
Non-controlling interest	(28)	594.0	573.1
plus interest bearing financial liability items		3,328.1	3,769.1
Pension provisions and similar obigations	(29)	1,127.4	1,450.9
Non-current financial liabilities	(31), (38)	1,761.2	1,503.4
Current financial liabilities	(31), (38)	171.9	537.7
Derivative financial instruments	(38)	267.6	277.1
less financial assets		3,024.7	3,137.2
Financial assets available for sale	(17), (38)	69.5	316.2
Derivative financial instruments	(38)	295.3	671.4
Cash and cash equivalents	(22), (38)	2,516.1	2,072.9
Other financial assets		143.8	76.7
plus purchase price allocation		317.5	300.5
Invested Capital		**4,154.7**	**4,180.6**
Invested Capital Prior year		4,180.6	3,968.1
Seasonal adjustment[1]		500.0	500.0
Ø Invested capital[2]		**4,667.7**	**4,574.4**
Underlying EBITA		**1,102.1**	**1,000.5**
ROIC		**23.61**	**21.87**
Weighted average cost of capital (WACC)		6.75	7.50
Value added		**787.0**	**657.4**

1 Adjustment to net debt to reflect a seasonal average cash balance
2 Average value based on beginning and year-end, incl. seasonal adjustment.

For TUI Group, ROIC was 23.6 %, up by 1.7 percentage points compared to the previous year. With the cost of capital of 6.75 %, this meant positive Economic Value Added of € 787.0 m (previous year € 657.4 m).

RISK REPORT

Successful management of existing and emerging risks is critical to the long-term success of our business and to the achievement of our strategic objectives. In order to seize market opportunities and leverage the potential for success, risk must be accepted to a reasonable degree. Risk management is therefore an integral component of the Group's Corporate Governance.

The current financial year has seen further maturity of the risk management framework with testing of key controls now occurring in our two largest source markets and regular testing of key financial controls occurring across all of our larger businesses. Our risk governance framework is set out below.

Risk Governance Framework

STRATEGIC DIRECTION AND RISK APPETITE

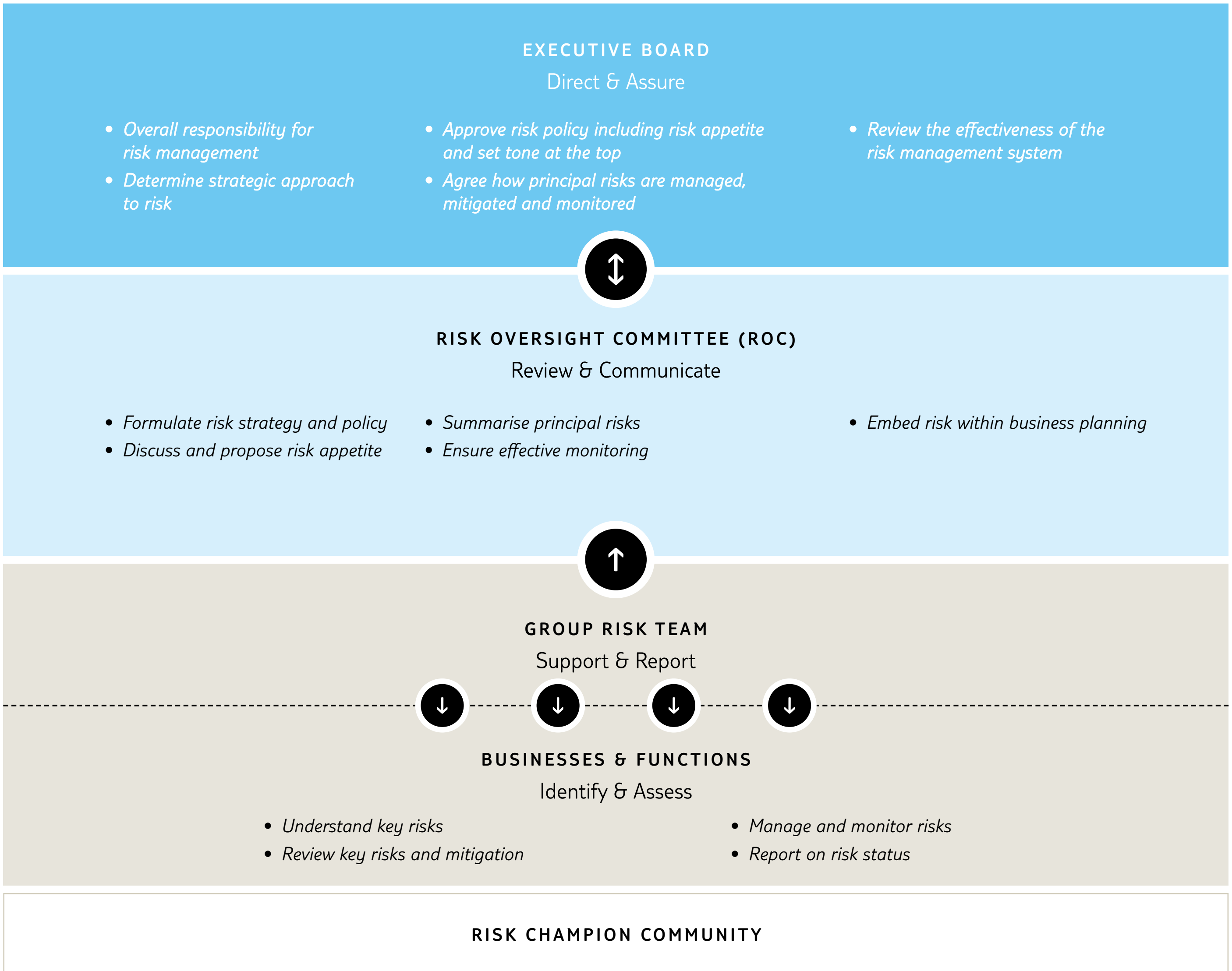
The Executive Board, with oversight by the Supervisory Board, determines the strategic direction of the TUI Group and agrees the nature and extent of the risks it is willing to take to achieve its strategic objectives.

To ensure that the strategic direction chosen by the business represents the best of the strategic options open to it, the Executive Board is supported by the Group Strategy function. This function exists to facilitate and inform the Executive Board's assessment of the risk landscape and development of potential strategies by which it can drive long-term shareholder value. On an annual basis the Group Strategy function develops an in-depth fact base in a consistent format which outlines the market attractiveness, competitive position and financial performance by division and source market. These are then used to facilitate debate as to the level and type of risk that the Executive Board finds appropriate in the pursuit of its strategic objectives. The strategy, once fully defined, considered and approved by the Executive Board, is then incorporated into the Group's three-year roadmap and helps to communicate the risk appetite and expectations of the organisation both internally and externally.

Ultimate responsibility for the Group's risk management rests with the Executive Board. Having determined and communicated the appropriate level of risk for the business, the Executive Board has established and maintains a risk management system to identify, assess, manage and monitor risks which could threaten the existence of the company or have a significant impact on the achievement of its strategic objectives: these are referred to as the principal risks of the Group. This risk management system includes an internally-published risk management policy which helps to reinforce the tone set from the top on risk, by instilling an appropriate risk culture in the organisation whereby employees are expected to be risk aware, control minded and 'do the right thing'. The policy provides a formal structure for risk management to embed it in the fabric of the business. Each principal risk has assigned to it a member of the Executive Committee as overall risk sponsor to ensure that there is clarity of responsibility and to ensure that each of the principal risks are understood fully and managed effectively.

The Executive Board regularly reports to the Audit Committee of the Supervisory Board on the overall risk position of the Group, on the individual principal risks and their management, and on the performance and effectiveness of the risk management system as a whole.

TUI Group Risk Management Roles & Responsibilities



The Risk Oversight Committee ('ROC') ensures on behalf of the Executive Board that business risks are identified, assessed, managed and monitored across the businesses and functions of the Group. Meeting on at least a quarterly basis, the ROC's responsibilities include considering the principal risks to the Group's strategy and the risk appetite for each of those risks, assessing the operational effectiveness of the controls in place to manage those risks and any action plans to further improve controls, and reviewing the bottom-up risk reporting from the businesses themselves to assess whether there are any heightened areas of concern. The ROC helps to ensure that risk management is embedded into the planning cycle of the Group and has oversight of the stress-testing of cash flow forecasts.

Senior executives from the Group's major businesses are required to attend the ROC on a rotational basis and present on the risk and control framework in their business, so that the members of the ROC can ask questions on the processes in place, the risks present in each business and any new or evolving risks which may be on their horizon, and also to seek confirmation that the appropriate risk culture continues to be in place in each of the major businesses.

Chaired by the Chief Financial Officer, other members of the Committee include the Group Director Controlling and Finance Director Tourism, the directors of Compliance & Risk, Financial Accounting, Treasury & Insurance, Group Reporting & Analysis, Assurance, M&A, Investor Relations and representatives from the IT and Legal Compliance functions and Group HR. The director of Group Audit attends without having voting rights to maintain the independence of their function. The ROC reports quarterly to the Executive Board to ensure that it is kept abreast of changes in the risk landscape and developments in the management of principal risks, and to facilitate regular quality discussions on risks and risk management at the Executive Board.

The Executive Board has also established a Group Risk team to ensure that the risk management system functions effectively and that the risk management policy is implemented appropriately across the Group. The Group Risk team supports the risk management process by providing guidance, support and challenge to management whilst acting as the central point for coordinating, monitoring and reporting on risk across the Group. The Group Risk team is responsible for the administration and operation of the risk and control software which underpins the Group's risk reporting and risk management process.

Each division and source market within the Group is required to adopt the Group Risk Management policy. In order to do this, each either has their own Risk Committee or includes risk as a regular agenda item at their Board meetings to ensure that it receives the appropriate senior management attention within their business. In addition, the divisions and source markets each appoint a Risk Champion, who promotes the risk management policy within their business and ensures its effective application. The Risk Champions are necessarily in close contact with the Group Risk team and they are critical both in ensuring that the risk management system functions effectively and in implementing a culture of continuous improvement in risk management and reporting.

RISK MANAGEMENT PROCESS

The Group Risk team applies a consistent risk methodology across all key areas of the business. This is underpinned by risk and control software which reinforces clarity of language, visibility of risks, controls and actions and accountability of ownership. Although the process of risk identification, assessment and response is continuous and embedded within the day-to-day operations of the divisions and source markets, it is consolidated, reported and reviewed at varying levels throughout the Group on at least a quarterly basis.

Risk Identification: On a quarterly basis, line management closest to the risks identify the risks relevant to the pursuit of the strategy within their business area in the context of four types of risk:

- longer-term strategic and emerging threats;
- medium-term challenges associated with business change programmes;
- short-term risks triggered by changes in the external and regulatory environment; and
- short-term risks in relation to internal operations and control.

A risk owner is assigned to each risk, who has the accountability and authority for ensuring that the risk is appropriately managed.

Risk Descriptions: The nature of the risk is articulated, stating the underlying concern the risk gives arise to, identifying the possible causal factors that may result in the risk materialising and outlining the potential consequences should the risk crystallise. This allows the divisions / source markets and the Group to assess the interaction of risks and potential triggering events and / or aggregated impacts before developing appropriate mitigation strategies to target causes and / or consequences.

Risk Assessment: The methodology used is to initially assess the gross risk. The gross risk is essentially the worst case scenario, being the product of the impact together with the likelihood of the risk materialising if there were no controls in place to manage, mitigate or monitor the risk. The key benefit of assessing the gross risk is that it highlights the potential risk exposure if controls were to fail completely or not be in place at all. Both impact and likelihood are scored on a rating of 1 to 5 using the criteria outlined below.

The next step in the process is to assess the controls which are currently in place and which help to reduce the likelihood of the risk materialising and / or its impact if it does. The details of the controls including the control owners are documented. Consideration of the controls in place then enables the current or net risk score to be assessed, which is essentially the reasonably foreseeable scenario. This measures the impact and likelihood of the risk with the current controls identified in operation. The key benefit of assessing the current risk score is that it provides an understanding of the current level of risk faced today and the reliance placed on the controls currently in operation.

Impact Assessment

	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
QUANTITATIVE	*< 3 % EBITA* (< € 30 m)*	*3 – < 5 % EBITA* (30 – < € 50 m)*	*5 – < 10 % EBITA* (50 – < € 105 m)*	*10 – < 15 % EBITA* (105 – < € 160 m)*	*≥ 15 % EBITA* (≥ € 160 m)*
QUALITATIVE	*Minimal impact on*	*Limited impact on*	*Short term impact on*	*Medium term impact on*	*Detrimental impact on*
	• Global reputation • Programme delivery • Technology reliability • Health & Safety standards	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*

* Budgeted underlying EBITA for the financial year ended 30 September 2017

Likelihood Assessment

	RARE	UNLIKELY	POSSIBLE	LIKELY	ALMOST CERTAIN
	< 10 % Chance	*10 – < 30 % Chance*	*30 – < 60 % Chance*	*60 – < 80 % Chance*	*≥ 80 % Chance*

Risk Response: If management are comfortable with the current risk score, then the risk is accepted and therefore no further action is required. The controls in place continue to be operated and management monitor the risk, the controls and the risk landscape to ensure that the risk score stays stable and in line with management's tolerance of the risk.

If, however, management assesses that the current risk score is too high, then an action plan will be drawn up with the objective of introducing new or stronger controls which will reduce the impact and / or likelihood of the risk to an acceptable, tolerable and justifiable level. This is known as the target risk score and is the parameter by which management can ensure the risk is being managed in line with the Group's overall risk appetite. The risk owner will normally be the individual tasked with ensuring that this action plan is implemented within an agreed timetable.

Each division / source market will continue to review their risk register on an ongoing basis through the mechanism appropriate for their business e. g. local Risk Committee. The risk owner will be held to account if action plans are not implemented within the agreed delivery timescales.

This bottom-up risk reporting is considered by the ROC alongside the Group's principal risks. New risks are added to the Group's principal risk register if deemed to be of a significant nature so that the ongoing status and the progression of key action plans can be managed in line with the Group's targets and expectations.

AD HOC RISK REPORTING

Whilst there is a formal process in place aligned to reporting on risks and risk management on a quarterly basis, the process of risk identification, assessment and response is continuous and therefore if required risks can be reported to the Executive Board outside of the quarterly process if events dictate that this is necessary and appropriate. Ideally such ad hoc reporting is performed by the business or function which is closest to the risk, but it can be performed by the Group Risk team if necessary. The best example of ad hoc risk reporting in the year was an assessment of the risks posed by the insolvency of Air Berlin.

RISK MATURITY & CULTURE

During the current financial year, the Risk Champions and the Group Risk team have continued to work together on risk management actions plans for the businesses as part of the culture of continuous improvement. Periodically we ask the businesses to formally assess the risk maturity and culture of their business, primarily through the Risk Champions completing self-assessment questionnaires, validating this with their local boards and then discussing their responses with the Group Risk team.

We regularly conduct a Group-wide employee survey, and the feedback received from our employees often leads to a number of initiatives being taken. The survey is a key yardstick for us, indicating where we stand and facilitating the reinforcement of our vision and values into our corporate culture.

ENTITY SCOPING

A robust exercise is conducted each year to determine the specific entities in the Group which need to be included within the risk and control software and therefore be subject to the full rigour of the risk management process. The scoping exercise starts with the entities included within the Group's consolidation system, and applies materiality thresholds to a combination of revenue, profit and asset benchmarks. From the entities this identifies, the common business management level at which those entities are managed is identified to dictate the entities which need to be set in the risk and control software itself to facilitate completeness of bottom-up risk reporting across the Group. This ensures that the risks and controls are able to be captured appropriately at the level at which the risks are being managed.

EFFECTIVENESS OF RISK MANAGEMENT SYSTEM

The Executive Board regularly reports to the Audit Committee of the Supervisory Board on the performance and effectiveness of the risk management system, supported by the ROC and the Group Risk team. The results of control testing in the UK&I and German businesses and the financial control testing undertaken across a number of our larger businesses forms a key part of the effectiveness oversight. Additionally, the Audit Committee receives assurance from Internal Audit through its programme of audits over a selection of principal risks and business transformation initiatives most critical to the Group's continued success.

The conclusion from all of the above assurance work is that the risk management system has functioned effectively throughout the year and there have been no significant failings or weaknesses identified. Of course there is always room for improvement and as noted earlier, the Risk Champions and the Group Risk team have continued to work together on risk management actions plans for the businesses. Broadly this concerns ensuring consistency of approach in assessing risk scores, clearer identification of controls currently in place as well as any action plans to introduce further controls, and ensuring that risk identification has considered the four risk categories.

Finally, in accordance with Section 317 (4) HGB (German Commercial Code), the auditor of TUI AG has reviewed the Group's early detection system for risks in place as required by Section 91 (2) AktG (German Stock Corporation Act) to conclude, if the system can fulfill its duties.

Principal Risks

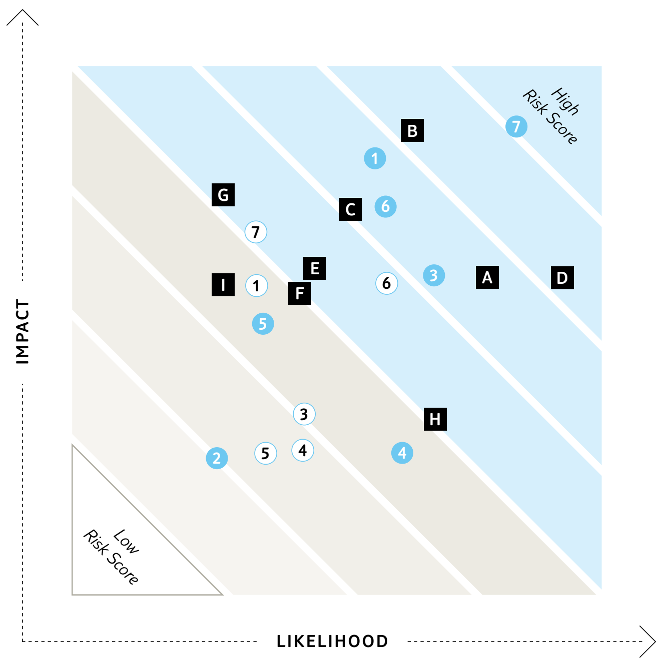
There are some principal risks which are inherent to the tourism sector and necessarily face all businesses in the sector. For these inherent risks we have controls, processes and procedures in place as a matter of course which serve to mitigate each risk to either minimise the likelihood of the event occurring and / or minimise the impact if it does occur. These risks are on our risk radar and we regularly monitor the risk, the controls and the risk landscape to ensure that the risk score stays stable and in line with our risk appetite in each case.

Furthermore, the tourism industry is fast-paced and competitive, with the emergence of new market participants operating new business models, combined with consumer tastes and preferences evolving all the time. As a result as a business we always have to adapt to the changing environment, and it is this process of constant change which generally gives rise to a number of principal risks which we have to actively manage in order to bring the risk into line with our overall risk appetite. We have action plans in place to increase controls around each of these risks and reduce the current net risk score to the target level indicated in the heat map overleaf.

In the heat map the assessment criteria used are shown on page 33. Note that the quantitative impact assessment is based on the budgeted underlying EBITA for the financial year ended 30 September 2017.

If the risk detail in the subsequent tables does not suggest otherwise, the risks shown below relate to all segments of the Group. The risks listed are the principal risks to which we are exposed and are not exhaustive. They will necessarily evolve over time due to the dynamic nature of our business.

Principal Risk Heat Map



CURRENT RISK POSITION

This shows the current level of risk faced today after taking in to account the controls that are in place and which are operating as intended.

TARGET RISK POSITION

This shows the target level of risk deemed to be an acceptable, tolerable and justifiable risk position after further actions have been implemented to mitigate the risk.

INHERENT RISKS

■ **CURRENT RISK POSITION**

- **A** *Destination Disruptions*
- **B** *Macroeconomic Risks*
- **C** *Competition & Consumer Preferences*
- **D** *Input Cost Volatility*
- **E** *Seasonal Cash Flow Profile*
- **F** *Legal & Regulatory Compliance*
- **G** *Health & Safety*
- **H** *Supply Chain Risk*
- **I** *Joint Venture Partnerships*

ACTIVE RISKS

● **CURRENT RISK POSITION** ○ **TARGET RISK POSITION**

1. *IT Development & Strategy*
2. *Brand Change*
3. *Growth Strategy*
4. *Integration & Restructuring Opportunities*
5. *Corporate & Social Responsibility*
6. *Information Security*
7. *Brexit*

Principal risks – Inherent to the sector

Nature of Risk

DESTINATION DISRUPTION

Providers of holiday and travel services are exposed to the inherent risk of incidents affecting some countries or destinations within their operations. This can include natural catastrophes such as hurricanes or tsunamis; outbreaks of disease such as Ebola; political volatility as has been seen in Egypt and Greece in recent years; the implications of war in countries close to our source markets and destinations; and terrorist events such as the tragic incident in Tunisia last year.

There is the risk that if such an event occurs which impacts on one or more of our destinations that we could potentially suffer significant operational disruption and costs in our businesses. We may possibly be required to repatriate our customers and / or the event could lead to a significant decline in demand for holidays to the affected destinations over an extended period of time.

Mitigating Factors

- Whilst we are unable to prevent such events from occurring, we have well defined crisis management procedures and emergency response plans which are implemented when an event of this nature occurs, with the focus being on the welfare of our customers.
- Where the appropriate course of action is to bring customers home immediately, our significant fleet of aircraft allows us to do this smoothly and efficiently.
- Our policy is to follow foreign office advice in each of our source markets with regards to non-essential travel. This serves to minimise the exposure of our customers to turbulent regions.
- Due to our presence in all key holiday regions, when a specific destination has been impacted by an external event, we are able to offer alternative destinations to our customers and to remix our destination portfolio away from the affected area in future seasons if necessary.

Nature of Risk	Mitigating Factors
	• We always assume some level of destination disruption each year when setting financial plans and targets, so that we are able to cope with a 'normal' level of disruption without it jeopardising achievement of our targets.

MACROECONOMIC RISKS

Nature of Risk	Mitigating Factors
Spending on travel and tourism is discretionary and price sensitive. The economic outlook remains uncertain with different source markets at different points in the economic cycle. Furthermore, terrorist incidents in source markets can influence the overall demand for overseas travel in those markets. Consumers are also waiting longer to book their trips in order to assess their financial situation. There is the risk that fluctuations in macroeconomic conditions in our source markets will impact on the spending power of our customers which could impact on our short-term growth rates and lead to margin erosion. Furthermore, changes in macroeconomic conditions can have an impact on exchange rates which, particularly for the £/€ rate, has a direct impact on the translation of non-euro source market results into euros, the reporting currency of our Group.	• Many consumers prioritise their spending on holidays above other discretionary items. • Creating unique and differentiated holiday products which match the needs of our customers. • Leveraging our scale to keep costs down and prices competitive. • Having a range of source markets so that we are not over exposed to one particular economic cycle. • Expressing our key profit growth target in constant currency terms so that short term performance can be assessed without the distortion caused by exchange rate fluctuations. • Promoting the benefits of travelling with a recognised and leading tour operator to increase consumer confidence and peace of mind.

COMPETITION & CONSUMER PREFERENCES

Nature of Risk	Mitigating Factors
The tourism industry is fast-paced and competitive with the emergence of new market participants operating new business models, combined with consumer tastes and preferences evolving all the time. In recent years there has been an emergence of successful substitute business models such as web-based travel and hotel portals which allow end users to combine the individual elements of a holiday trip on their own and book them separately. Consumer tastes and preferences have evolved in recent years as well, with more consumers booking their holidays online and via mobiles and tablets, and booking closer to the time of travel. There is the risk that if we do not respond adequately to such business model disruption or if our products and services fail to meet changing customer demands and preferences, that our turnover, market share and profitability will suffer as a result.	• Our outstanding market position as a leading tourism group, the strength of our brands and our integrated business model enables us to respond robustly to competitive threats. • The TUI Group is characterised by the continuous development of unique and exclusive holidays, developing new concepts and services which match the needs and preferences of our customers. • Our integrated business model offers end-to-end customer services, from consultation and booking of holidays via flights with the Group's own airlines through to Group-owned or operated hotels, resorts and cruise ships. Integration thus facilitates the development and marketing of individual, tailored holiday offerings for customers which it is difficult for competitors to replicate. • Building strong and lasting relationships with our key hotel partners, which further reinforces our ability to develop new concepts exclusive to the TUI Group which competitors struggle to match. • Focusing on being online throughout the whole of the customer journey – from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media.

Nature of Risk	Mitigating Factors
INPUT COST VOLATILITY	
A significant proportion of operating expenses are in non-local currency and / or relate to aircraft fuel which therefore exposes the business to changes in both exchange rates and fuel prices. There is the risk that if we do not manage adequately the volatility of exchange rates, fuel prices and other input costs, then this could result in increased costs and lead to margin erosion, impacting on our ability to achieve profit targets. There is also the risk that if our hedging policy is too rigid, we may find ourselves unable to respond to competitive pricing pressures during the season without it having a direct detrimental impact on our market position and / or profitability.	• Ensuring that the appropriate derivative financial instruments are used to provide hedging cover for the underlying transactions involving fuel and foreign currency. • Maintaining an appropriate hedging policy to ensure that this hedging cover is taken out ahead of source market customer booking profiles. This provides a degree of certainty over input costs when planning pricing and capacity, whilst also allowing some flexibility in prices so as to be able to respond to competitive pressures if necessary. • Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies. • Detailed information on currency and fuel hedges can be found in the Notes to the consolidated financial statements in section Financial instruments.
SEASONAL CASH FLOW PROFILE	
Tourism is an inherently seasonal business with the majority of profits earned in the European summer months. Cash flows are similarly seasonal with the cash high occurring in the summer as advance payments and final balances are received from customers, with the cash low occurring in the winter as liabilities have to be settled with many suppliers after the end of the summer season. There is the risk that if we do not adequately manage cash balances through the winter low period this could impact on the Group's liquidity and ability to settle liabilities as they fall due whilst ensuring that financial covenants are maintained.	• As our business is spread across a number of source markets within the Tourism division there are some counter-cyclical features e. g. winter is a more important season for the Nordic and Canadian source markets. Some brands, such as the UK ski brand Crystal, have a different seasonality profile which helps to temper the overall profile. • Our content-focussed strategy is also helping to reduce the seasonality risk, as hotels and cruises have a more evenly distributed profit and cash profile across the year. This is highlighted by the fact that in the current financial year, the Group made an underlying operating profit for the first time over the nine months to 30 June. • The business produces regularly both short term and long term cash forecasts during the year which the Treasury team use to manage cash resources effectively. • We have implemented a financial policy which has led to an improvement in our credit rating and makes it easier to maintain financing facilities at suitable levels. • Existing financing facilities are considered to be more than sufficient for our requirements and provide ample headroom. • We continue to maintain high-quality relationships with the Group's key financiers and monitor compliance with the covenants contained within our financing facilities. • Raising additional finance from the Capital Markets, should it be required, remains an option.

Nature of Risk	Mitigating Factors
LEGAL & REGULATORY COMPLIANCE	
Most providers of holiday and travel services operate across a number of economies and jurisdictions which therefore exposes them to a range of legal, tax and other regulatory laws which must be complied with. As the TUI Group is the world's leading tourism business operating from multiple source markets and providing holidays in more than 100 destinations, we are exposed to a range of laws and regulations with which we must comply or else risk incurring fines or other sanctions from regulatory bodies.	• Communication and strong tone from the top concerning compliance with laws and regulations. • Legal Compliance Committee established to ensure appropriate oversight, monitoring and action plans and to further drive the compliance culture across the Group. • Embedded legal and tax expertise in all major businesses responsible for maintaining high quality relationships with the relevant regulators and authorities. • Ongoing review conducted by the Group Legal Compliance team to centrally monitor compliance with regulations and provide expert advice to local teams on specific areas.
HEALTH & SAFETY	
For all providers of holiday and travel services, ensuring the health and safety of customers is of paramount importance. This is especially so for TUI as we are the world's leading tourism group selling holidays to over 20 million customers per annum. There is the risk of accidents or incidents occurring causing illness, injury or death to customers or colleagues whilst on a TUI holiday. This could result in reputational damage to the business and / or financial liabilities through legal action being taken by the affected parties.	• Health and safety functions are established in all businesses in order to ensure there is appropriate focus on health and safety processes as part of the normal course of business. • Ongoing monitoring is conducted by the Group Security, Health & Safety function to ensure compliance with minimum standards. • Appropriate insurance policies are in place for when incidents do occur.
SUPPLY CHAIN RISK	
Providers of holiday and travel services are exposed to the inherent risk of failure in their key suppliers, particularly hotels. This is further heightened by the industry convention of paying in advance ('prepayment') to secure a level of room allocation for the season. There is the risk that we do not adequately manage our financial exposure should demand drop either for individual hotels and / or for the destination in which the hotels are located and to which the tour operator still has a level of prepayment outstanding which could result in financial losses.	• Owned and joint venture partner hotels form a substantial part of our programme which reduces our inherent risk in this area. • Established and embedded a robust prepayment authorisation process to both limit the level of prepayments made and ensure that they are only paid to trusted, credit-worthy counterparties. • Where prepayments are made to external hoteliers this is to secure access to unique and differentiated product for which demand is inherently higher and more resilient to external events than for commodity product. • Prepayments are monitored on a timely and sufficiently granular basis to manage our financial exposure to justifiable levels.

Nature of Risk	Mitigating Factors
JOINT VENTURE PARTNERSHIPS	
It is common for tourism groups to use joint venture partnerships in some of their operations in order to reduce the risk of new ventures or to gain access to additional expertise. TUI has three significant joint ventures – Riu, TUI Cruises and Sunwing. There is the risk that if we do not maintain good relations with our key partners that the ventures' objectives may not remain consistent with that of the Group which could lead to operational difficulties and jeopardise the achievement of financial targets.	• Good working relationships exist with all of our main joint venture partners and they are fully aligned with and committed to the growth strategy of TUI Group.

Actively managed principal risks – Strategic and emerging and business change

IT DEVELOPMENT & STRATEGY	
Our focus is on enhancing customer experience by providing engaging, intuitive, seamless and continuous customer service through delivery of leading digital solutions, core platform capabilities, underlying technical infrastructure and IT services required to support the Group's overall strategy for driving profitable top-line growth. There is a risk that we fail to keep up with or outpace the market and evolving consumer preferences, we do not concentrate our activities on the correct areas for overall business success, do not address legacy inefficiencies and complexities of our existing infrastructure, do not ensure continuity of service for critical IT systems and / or do not execute our strategy and developments in line with expectations. If we are ineffective in our strategy or technology development this could impact on our ability to provide leading technology solutions in our markets thereby impacting on our competitiveness, our ability to provide a superior customer experience and associated impact on quality and operational efficiency. This would ultimately impact on our customer numbers, revenue and profitability.	• Developed and communicated (in conjunction with Executives, Business & IT Leadership Teams) the Group's IT Strategy which is clearly aligned to our overall business objectives and considers external factors such as the pace of technology change and internal factors such as the underlying quality required throughout IT. • Continuing to implement our online platform in order to enhance customer experience and drive higher conversion rates. • Implementing a SAP-based central customer platform to collate all information on our customers across their journey to provide a single view of the customer alongside an eCRM platform which will support strategic marketing. • Placing increased focus on ensuring continuity plans for critical IT systems are in place and regularly tested. • Cascaded clear technology standards and associated delivery roadmaps which are linked to Group wide and source market objectives • Adopting API, Big Data and Cloud architecture to drive improved speed, productivity and efficiency. • Experimenting with Blockchain technology to be ahead of the competition.

Nature of Risk	Mitigating Factors
BRAND CHANGE	
Our strategy is to migrate our many local tour operating brands in to one global brand, with the aim of strengthening and enhancing our competitive positon, particularly in the online world. We are aiming to capitalise on the strength of the TUI brand on a global scale whilst ensuring we maintain local roots. There is an inherent risk when executing such a large scale global brand strategy that we may not be able to maintain the benefits of local brand equity throughout the process and we recognise that such a large programme should take place with respect for the interests of all our stakeholders and existing contractual obligations. If we do not successfully deliver against our strategy this could result in a decline in brand awareness and loyalty with associated decline in customer demand or it could impact on our ability to maximise on the opportunities facilitated by having one brand on a global scale.	• Undertaken detailed market research in each source market to assess current brand positioning and likely impact of the brand change. • Approved incremental marketing spend to raise the profile of the TUI brand locally in order to promote the benefits and to manage the expectations of our customers in relation to the future of our enhanced products and services. • Established a 'One Brand' programme team responsible for coordinating and monitoring the brand change activity across all source markets, with KPIs identified and tracked on a regular basis by both local and group colleagues and prompt corrective action taken to address issues as they arise. • Taking a phased and focussed approach to the brand change by implementing in one source market at a time. This minimises the risk at a given point in time and allows us to gain learnings from the source markets undergoing transition and implement those learnings in the next source market. Our first brand transition successfully occurred in the Netherlands in the prior financial year 2016, with Nordics and Belgium source markets successfully transitioned in financial year 2017. The major brand transition in the UK&I of Thomson to TUI is now well underway in financial year 2018. • Communicating both internally and externally across multiple media channels to drive brand awareness, with increased awareness through consistent marketing in key destination airports and changing of the livery on our aircraft in order to support greater awareness of the TUI Brand.
GROWTH STRATEGY	
We have set ourselves a medium-term target of achieving at least 10 % growth in underlying EBITA at constant currency rates (see page 48). This will be driven by growth in own hotel and cruises content, and top line and efficiency improvements. Additionally we have broadened our offering to customers by introducing extra flexibility into our packages, and expanded our long-haul offering by taking advantage of the capabilities of the 787s which we have and are due to receive via our order book. Note that availability of aircraft finance is a key assumption of our business model. Whilst managing this expansion, we must continue to adapt to changes in consumer tastes and booking profiles, and we must continue to match our capacity to consumer demand. Asset utilisation – of aircraft, cruise ships and hotels – is critical to our financial success particularly when in a growth phase. There is a risk that we could be unsuccessful in maximising opportunities to execute our expansion strategy. This could mean that we fail to achieve some of the initiatives we have embarked upon, which could result in us falling short against the overall growth targets we have set for the business.	• The Executive Board is very focussed on the strategy and mindful of the risks, so there is strong direction and commitment from the top. • The Group Tourism Board plays an important role in coordinating, executing and monitoring the various growth initiatives. • There are a number of initiatives underway to achieve growth which reduces the risk through diversification. • Each of the business teams tasked with achieving an element of the growth strategy are still required to maintain sound financial discipline. The Group's investment criteria and authorisation processes must still be adhered to as we are not prepared to be reckless in the pursuit of growth. • We continue to maintain strong relationships with the providers of aircraft finance. • Monitoring of overall market conditions continues to occur so that plans can be adapted or contingency plans invoked if required.

Nature of Risk	Mitigating Factors
INTEGRATION & RESTRUCTURING OPPORTUNITIES	
Our key strategic rationale for TUI Group is to act 'as one' wherever it makes sense to do so, whilst maintaining local differences where the benefit of that differentiation is greater than that of harmonisation. There are a number of restructuring projects underway across the Group as a result to enable us to achieve these opportunities. Furthermore our continuous review of our own businesses and competitors means that we do have an active programme of business disposals (e. g. Travelopia in financial year 2017) and acquisitions with associated integration projects. There is an inherent risk with any large restructuring or integration programme that we face challenges in managing the complexities associated with further integrating our business, and reducing overlapping activities in order to develop a more lean and streamlined operating model. If we are not successful in leveraging and optimising the identified opportunities this could have a significant impact on our ability to deliver the identified benefits in line with expectations and enhance shareholder value.	• Strong project management structures exist for all of the major restructuring and disposal programmes which are underway to ensure that they are managed effectively. • Project reporting tool ensures enhanced visibility of the progress of major projects as a matter of routine. • Regular reporting by the major projects to the Executive Board to ensure swift resolution of any issues or to enhance coordination across the Group where required.
CORPORATE & SOCIAL RESPONSIBILITY	
For TUI Group, economic, environmental and social sustainability is a fundamental management principle and a cornerstone of our strategy for continually enhancing the value of our Company. This is the way we create the conditions for long-term economic success and assume responsibility for sustainable development in the tourism sector. Our focus is to reduce the environmental impact of our holidays and promote responsible social policies and outcomes both directly through our own business and indirectly via our influence over our supply chain partners, thereby creating positive change for people and communities and being a pioneer of sustainable tourism across the world. There is a risk that we are not successful in driving forecast social and environmental improvements across our operations, that our suppliers do not uphold our corporate and social responsibility standards and we fail to influence destinations to manage tourism more sustainably. If we do not maximise our positive impact on destinations and minimise the negative impact to the extent that our stakeholders expect, this could result in a decline in stakeholder confidence, reputational damage, reduction in demand for our products and services and loss of competitive advantage.	• Early adoption of EU Directive 2014/95/EU requiring increased disclosure of Corporate and Social Responsibility initiatives. • Developed and launched in 2015 the 'Better Holidays, Better World' 2020 sustainability strategy framework which includes specific targets for key sustainability indicators. • Established a dedicated sustainability team to work closely with the business and other stakeholders to implement the sustainability strategy. • Operating the most carbon efficient airlines in Europe with continued investment in new, more efficient aircraft (e. g. Boeing 787 Dreamliner & 737 MAX) and cruise ships (e. g. the new Mein Schiff 1 & 2). • Implemented an environmental management system with five of our airlines having achieved ISO 14001 certification. • Increased measures to influence accommodation suppliers to achieve third party sustainability certification recognised by the Global Sustainable Tourism Council (GSTC). • TUI Care Foundation expanded to focus on the achievement of 2020 target for charitable donations and sustainability projects, with particular emphasis on sustainable tourism, environmental protection and the welfare of children.

Nature of Risk	Mitigating Factors
Furthermore, if TUI Group falls short of achieving its sustainable development targets and at the same time the objectives of the UN Paris Climate Change Agreement (December 2015) are not met, this could lead to sustained long-term damage to certain of the TUI Group's current and future destinations, which could also have a material adverse effect on demand for our products and services.	
INFORMATION SECURITY	
Our responsibility is to protect the confidentiality, integrity and availability of the data we have and the services we provide to our customers, our employees, our suppliers and service delivery teams. This is a dynamic risk due to increased global cyber-crime activity and new regulations. At the same time our consolidation under the TUI brand and our increasing dependence on online sales and customer care channels (web / mobile) increases our exposure and susceptibility to cyber-attacks and hacks. If we do not ensure we have the appropriate level of security controls in place across the Group, this could have a significant negative impact on our key stakeholders, associated reputational damage and potential for financial implications.	• Continued commitment from the Executive Board in support of key initiatives to ensure all existing and future IT systems are secure by design, that exposure to vulnerability is managed effectively, user access is sufficiently controlled and colleagues are made aware of information security risks through appropriate training. • Launch of a company-wide Information Security awareness campaign to promote secure behaviours amongst our colleagues. Overall goal is to make information security part of everyone's job. • Continuous review and testing of all external devices and ongoing monitoring of logs in order to identify any potential threats as and when they arise. • Continuous improvement through lessons learned from real or simulated cyber incidents.
BREXIT	
With the UK government formally triggering Article 50 of the Treaty on European Union of Lisbon on 29th March 2017, Brexit has become an active principal risk facing TUI Group. Brexit has an impact both on existing principal risks (e. g. Macroeconomic risks and Input Cost Volatility, through the uncertainty it has introduced to prospects for future growth rates in the UK economy and the sustained depreciation of sterling since the referendum result in 2016) as well as introducing a new class of principal risk due to the direct potential impact it could have on specific areas of our business model. Our main concern is whether or not all of our airlines would continue to have access to EU airspace as now. If we were unable to continue to fly intra-EU routes, such as from Germany to Spain, this would have a significant operational and financial impact on TUI Group. Other areas of uncertainty include the status of our UK employees working in the EU and vice versa, and the potential for customer visa requirements for holidays from the UK to the EU.	• The Group has established a Brexit Steering Committee to monitor developments as the political negotiations take place, assess any impacts on TUI Group's business model and devise suitable mitigation strategies. • In addition we continue to lobby relevant UK and EU ministers, officials and regulators to stress the continued importance of a liberalised and deregulated aviation market across Europe to protect consumer choice in both regions.

RISKS WITH NO IMPACT ON UNDERLYING EBITA

Impairment risk related to the investment in container shipping (Hapag-Lloyd AG). During the current financial year, TUI Group disposed of all of its investment in the container shipping company, Hapag-Lloyd AG, and therefore this risk no longer exists.

German trade tax risk. As noted in prior years, the German tax authorities have issued guidance on how certain items of expenditure should be treated for the purposes of German trade tax. The Group continues to disagree with the German tax authorities' interpretation of this matter and it is possible that the issue will have to be litigated through the German tax courts which could take a considerable amount of time to bring it to a resolution. There was no change to this risk during the financial year 2017, however the provision on the balance sheet at 30 September 2017 was increased to € 50 m (2016: € 44 m), primarily due to the interest effects.

OVERALL RISK ASSESSMENT

With the UK government formally triggering Article 50 of the Treaty on European Union of Lisbon on 29th March 2017, Brexit has become an active principal risk facing TUI Group. Brexit has an impact both on existing principal risks (e. g. Macroeconomic risks and Input Cost Volatility, through the uncertainty it has introduced to prospects for future growth rates in the UK economy and the sustained depreciation of sterling since the referendum result in 2016) as well as introducing a new class of principal risk due to the direct potential impact it could have on specific areas of our business model.

Our main concern is whether or not all of our airlines would continue to have access to EU airspace as now. Other areas of uncertainty include the status of our UK employees working in the EU and vice versa, and the potential for customer visa requirements for holidays from the UK to the EU. If we were unable to continue to fly intra-EU routes, such as from Germany to Spain, this would have a significant operational and financial impact on TUI Group. It is for this reason that we currently give Brexit the highest possible risk score using the impact and likelihood assessment criteria detailed on page 33, with the expectation that this score will decline over time as either political negotiations lead to confirmation of continued access to EU airspace, or as our mitigation strategies begin to be implemented.

Macroeconomic risk we view as being materially unchanged compared to last year, with Brexit and the UK election result in June continuing to create some degree of uncertainty over prospects for future growth rates in the UK economy. The sustained depreciation of sterling since last year's UK Brexit referendum has a cost impact through making foreign denominated input costs in the UK business more expensive in sterling terms. Whilst the standard hedging policy we follow meant that the UK Source Market had already hedged a significant proportion of its foreign currency requirements for the current financial year ahead of the Brexit referendum, the unhedged portion resulted in higher costs which impacted the UK business in the second half of this year. Assuming the Pound Sterling does not strengthen, this will remain the case through to the Summer 2018 season. Normal business practice is to increase holiday prices to offset these higher input costs and protect margins, however competitive pressures may prevent prices from rising to the full extent required. Whilst the business continues to focus strongly on efficiency, which assists to offset against this we view the input cost volatility risk as having increased compared to last year.

The other risk we see as having increased over the course of the current year is Information Security, of which cyber security is a major component, due to increased global cyber-crime activity as highlighted by well-publicised events such as the Wannacry incident. To address this increasing risk we have launched a Group-wide Information Security awareness campaign to promote secure behaviours amongst our colleagues. The overall goal is to make information security part of everyone's job.

Destination disruption is an inherent risk to which all providers of holiday and travel services are exposed. This disruption can take place in many forms such as natural catastrophes (e. g. recent hurricane activity in the Caribbean), outbreaks of diseases, social unrest, terrorist attacks and the implications of war in countries close to our source markets and destinations. General customer concerns over safety and security in eastern Mediterranean destinations (particularly Turkey) has continued to depress demand across all our source markets for these destinations, although there has been some improvement in demand compared to last year. Due to our geographic reach, we are able to offer our customers alternative destinations such as Spain, Canary Islands, Cape Verde etc. Despite this continued shift in demand, Turkey remains an important destination for our Group. Our general policy in respect of destinations remains to follow foreign office advice in each of our source markets relating to non-essential travel to specific destinations. Overall, we consider this risk to be materially unchanged compared to the prior year.

Our brand change programme has seen further successful brand changes in the current financial year in our Nordic and Belgian businesses and the major brand transition in the UK&I of Thomson to TUI is now well underway in financial year 2018. Overall therefore we see this risk as having declined over the year. Similarly the progress made with our sustainable development initiatives leads us to view the Corporate & Social Responsibility risk as having declined compared to last year.

Two risks have dropped out of our Principal Risk register compared to last year. Achievement of our merger synergy targets means that this programme has now ceased and therefore the Corporate Streamlining risk drops out of our risk register completely. Similarly, we have successfully navigated our way through the initial period of post-merger concern with regards to retaining key talent and we now have standardised processes in place for managing key talent in the Group, and therefore Talent Management risk is viewed as now being a 'Business As Usual' risk which is overseen by the Group HR team.

Finally, during the current financial year TUI Group disposed of all of its investment in the container shipping company, Hapag-Lloyd AG, and therefore the impairment risk highlighted in previous years no longer exists.

Other than the items noted above, the Executive Board is of the opinion that there has been no other significant change to the risk landscape of the Group.

VIABILITY STATEMENT

In accordance with provision C2.2 of the 2014 revision of the UK Corporate Governance Code, the Executive Board has assessed the prospect of the Company over a longer period than the twelve months required by the 'Going Concern' provision. The Executive Board considers annually and on a rolling-basis a three year strategic plan for the business as outlined earlier in the 'Strategic direction and risk appetite' section. The latest three year plan was approved in October 2017 and covers the period to 30 September 2020. A three year horizon is considered appropriate for a fast-moving competitive environment such as tourism, and it is noted that the Group's current € 1,535.0 m revolving credit limit, which is used to manage the seasonality of the Group's cash flows and liquidity, matures in July 2022 which is beyond the timeframe of the three year horizon. The three year plan considers cash flows as well as the financial covenants which the credit facility requires compliance with. Key assumptions underpinning the three year plan and the associated cash flow forecast is that aircraft and cruise ship finance will continue to be readily available, and that the terms of the UK leaving the EU are such that all of our airlines continue to have access to EU airspace as now.

The Executive Board has conducted a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. Sensitivity analysis is applied to the cash flow to model the potential effects should certain principal risks actually occur, individually or in unison. This includes modelling the effects on the cash flow of significant disruption to a major destination in the summer season.

Taking account of the company's current position, principal risks and the aforementioned sensitivity analysis, the Executive Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three year period of the assessment.

Key features of the internal control and risk management system in relation to the (Group) accounting process (sections 289 (5) and 315 (2) no 5 of the German Commercial Code HGB)

1. DEFINITION AND ELEMENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE TUI GROUP

The TUI Group's internal control system comprises all the principles, processes and measures that are applied to secure effective, efficient and accurate accounting which is compliant with the necessary legal requirements.

In the completed financial year, the TUI Group's existing internal control system was further developed, drawing on the internationally recognised framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission), which forms the conceptual basis for the internal control system.

The TUI Group's internal control system consists of internal controls and the internal monitoring system. The Executive Board of TUI AG, in exercising its function of managing business operations, has entrusted responsibility for the internal control system in the TUI Group to specific Group functions.

The elements of the internal monitoring system in the TUI Group comprise both measures integrated into processes and measures performed independently. Besides manual process controls, e.g. the 'four-eyes principle', another key element of the process-related measures are automated IT process controls. Process-related monitoring is also secured by bodies such as the Risk Oversight Committee of TUI AG and by specific Group functions.

The Supervisory Board of TUI AG, in particular its Audit Committee, as well as the Group Auditing department at TUI AG are incorporated into the TUI Group's internal monitoring system through their audit activities performed independently from business processes. On the basis of section 107 (3) of the German Stock Corporation Act, the Audit Committee of TUI AG deals primarily with the auditing of the annual financial statements, monitoring the accounting process and the effectiveness of the internal control and risk management system. In the Audit Committee Report the reliability of the financial reporting and the monitoring of the financial accounting process as well as the effectiveness of the internal control and risk management system are described.

→ *Audit Committee Report see from page 15*

The Group's auditors have oversight of the TUI Group's control environment. The audit of the consolidated financial statements by the Group auditor and the audit of the individual financial statements of Group companies included in the consolidated financial statements, in particular, constitute a key non-process-related monitoring measure with regard to Group accounting.

In relation to Group accounting, the risk management system, introduced as an Enterprise Risk Management System (ERM System) as a component of the internal control system, also addresses the risk of misstatements in Group bookkeeping and external reporting. Apart from operational risk management, which includes the transfer of risks to insurance companies by creating cover for damage and liability risks and also hedging transactions to limit foreign currency and fuel price risks, the TUI Group's risk management system embraces the systematic early detection, management and monitoring of risks across the Group. A more detailed explanation of the risk management system is provided in the section on the Risk Governance Framework in the Risk Report.

2. USE OF IT SYSTEMS

Bookkeeping transactions are captured in the individual financial statements of TUI AG and of the subsidiaries of TUI AG, through local accounting systems such as SAP or Oracle. As part of the process of preparing their individual financial statements, subsidiaries complete standardized reporting packages in the Group's Oracle Hyperion Financial Management 11.1.2.4 (HFM) reporting system. HFM is used as the uniform reporting and consolidation system throughout the Group so that no additional interfaces exist for the preparation of the consolidated financial statements.

All consolidation processes used to prepare the consolidated financial statements of TUI AG, e. g. capital consolidation, assets and liabilities consolidation and expenses and income elimination including at equity measurement, are generated and fully documented in HFM. All elements of TUI AG's consolidated financial statements, including the disclosures in the Notes, are developed from the HFM consolidation system. HFM also provides various modules for evaluation purposes in order to prepare complementary information to explain TUI AG's consolidated financial statements.

The HFM reporting and consolidation system has an in-built workflow process whereby when businesses promote their data within the system, to signal that their reporting package is complete, they are then locked out from making any further changes to that data. This ensures data integrity within the system and also facilitates a strong audit trail enabling changes to a reporting package to be identified. This feature of the HFM system has been checked and validated by the TUI AG Group Audit department on several occasions since the system was introduced.

At their own discretion, TUI AG's Group auditors select certain individual financial statements from the financial statements entered in the HFM reporting and consolidation system by the Group companies, which are then reviewed for the purposes of auditing the consolidated financial statements.

3. SPECIFIC RISKS RELATED TO GROUP ACCOUNTING

Specific risks related to Group accounting may arise, for example, from unusual or complex business transactions, in particular at critical times towards the end of the financial year. Business transactions not routinely processed also entail special risks. The discretion necessarily granted to employees for the recognition and measurement of assets and liabilities may result in further Group accounting-related risks. The outsourcing and transfer of accounting-specific tasks to service companies may also give rise to specific risks. Accounting-related risks from derivative financial instruments are outlined in the Notes to the consolidated financial statements.

4. KEY REGULATION AND CONTROL ACTIVITIES TO ENSURE PROPER AND RELIABLE (GROUP) ACCOUNTING

The internal control measures aimed at securing proper and reliable Group accounting ensure that business transactions are fully recorded in a timely manner in accordance with legal requirements and the Articles of Association. This also ensures that assets and liabilities are properly recognised, measured and presented in the consolidated financial statements. The control operations also ensure that bookkeeping records provide reliable and comprehensive information.

Controls implemented to secure proper and reliable accounting include, for instance, analysis of facts and developments on the basis of specific indicators. Separation of administrative, execution, settlement and authorization functions and the implementation of these functions by different persons reduces the potential for fraudulent operations. Organisational measures also aim to capture any corporate or Group-wide restructuring or changes in sector business operations rapidly and appropriately in Group accounting. They also ensure, for instance, that bookkeeping transactions are correctly recognised in the period in which they occur in the event of changes in the IT systems used by the accounting departments of Group companies. The internal control system likewise ensures that changes in the TUI Group's economic or legal environment are mapped and that new or amended accounting standards are correctly applied.

The TUI Group's accounting policies together with the International Financial Reporting Standards (IFRS) in compliance with EU legislation, govern the uniform accounting and measurement principles for the German and foreign companies included in TUI's consolidated financial statements. They include general accounting principles and methods, policies concerning the statement of financial position, income statement, notes, management report, cash flow statement and segment reporting.

The TUI Group's accounting policies also govern specific formal requirements for the consolidated financial statements. Besides defining the group of consolidated companies, they include detailed guidance on the reporting of financial information by those companies via the group reporting system HFM on a monthly, quarterly and year end basis. TUI's accounting policies also include, for instance, specific instructions on the initiating, reconciling, accounting for and settlement of transactions between group companies or determination of the fair value of certain assets, especially goodwill.

At Group level, specific controls to ensure proper and reliable Group accounting include the analysis and, where necessary, correction of the individual financial statements submitted by the Group companies, taking account of the reports prepared by the auditors and meetings to discuss the financial statements which involve both the auditors and local management. Any further content that requires adjusting can be isolated and processed downstream.

The control mechanisms already established in the HFM consolidation system minimize the risk of processing erroneous financial statements. Certain parameters are determined at Group level and have to be applied by Group companies. This includes parameters applicable to the measurement of pension provisions or other provisions and the interest rates to be applied when cash flow models are used to calculate the fair value of certain assets. The central implementation of impairment tests for goodwill recognized in the financial statements secures the application of uniform and standardized evaluation criteria.

5. DISCLAIMER

With the organisational, control and monitoring structures established by the TUI Group, the internal control and risk management system enables company-specific facts to be captured, processed and recognized in full and properly presented in the Group's accounts.

However, it lies in the very nature of the matter that discretionary decision-making, faulty checks, criminal acts and other circumstances, in particular, cannot be ruled out and will restrict the efficiency and reliability of the internal control and risk management systems, so that even Group-wide application of the systems cannot guarantee with absolute certainty the accurate, complete and timely recording of facts in the Group's accounts.

Any statements made relate exclusively to TUI AG and to subsidiaries according to IFRS 10 included in TUI AG's consolidated financial statements.

OVERALL ASSESSMENT BY THE EXECUTIVE BOARD AND REPORT ON EXPECTED DEVELOPMENTS

Actual business performance 2017 compared with our forecast

In the third financial year following the merger, TUI Group's performance again exceeded our original forecast, despite a challenging geopolitical framework. TUI Group's underlying EBITA rose by 10.2 % to € 1,102.1 m in financial year 2017. On a constant currency basis for the reporting period and the prior year reference period, this equates to an improvement of 12.0 %. In financial year 2017 we have thus met our guidance, which envisaged an increase in our operating result of at least 10 % on a constant currency basis (financial year 2016).

Due to our sound operating performance and lower net one-off adjustments, the Group also delivered growth in its EBITA from continuing operations, which climbed 14.3 % to € 1,026.5 m.

Turnover by TUI Group likewise outperformed expectations, up 11.7 % on the previous year on a constant currency basis. The Group's net cash capex and financial investments (excluding down payment on aircraft orders) fell slightly below the target of € 1 bn euros at € 0.9 bn. The net cash of € 0.6 bn reported as at year-end 2017 surpassed our last guidance, taking account of the cash inflows from the sale of Travelopia and the remaining stake in Hapag-Lloyd AG. This was primarily due to a positive development in working capital in Q4 of the period under review, which typically delivers strong turnover.

Expected changes in the economic framework

Expected development of gross domestic product

Var. %	**2018**	2017
World	**3.7**	**3.6**
Eurozone	1.9	2.1
Germany	1.8	2.0
France	1.8	1.6
UK	1.5	1.7
US	2.3	2.2
Russia	1.6	1.8
Japan	0.7	1.5
China	6.5	6.8
India	7.4	6.7

Source: International Monetary Fund (IMF), World Economic Outlook, October 2017

MACROECONOMIC SITUATION

In the course of calendar year 2017, the growth trend of the global economy continued to consolidate and is expected to remain strong for the foreseeable future. The International Monetary Fund (IMF, World Economic Outlook, October 2017) expects gross domestic product to grow by 3.6 % in 2017. For 2018, the IMF expects the global economy to grow by 3.7 %. For the first time in a long while, the economy is gaining momentum across almost all major economies but will gradually slow down in the course of the next two years.

MARKET TREND IN TOURISM

UNWTO expects international tourism to continue growing globally in this decade. For the next few years, average weighted growth of around 3 % per annum has been forecast (source: UNWTO, Tourism Highlights, 2017 edition). In the first six months of 2017, international arrivals grew by 6.4 %. UNWTO expects growth of 3 % to 4 % for the full calendar year 2017 (source: UNWTO, World Tourism Barometer, August 2017).

EFFECTS ON TUI GROUP

As the world's leading tourism group, TUI Group depends on the development of consumer demand in the large source markets in which we operate with our sales and marketing activities and hotel and cruises brands. Our budget is based on the assumptions used as a basis by the IMF to predict the future development of the global economy.

Apart from the development of consumer sentiment, political stability in the destinations is a further crucial factor affecting demand for holiday products. In our view, our business model is sufficiently flexible to compensate for the currently identifiable challenges.

The expected turnover growth assumed for our Source Markets in our budget for financial year 2018 is in line with UNWTO's long-term forecast. Our strategic focus is to create unified branding for our Sales & Marketing activities, broaden our portfolio of Group hotels and expand our cruise business.

Expected development of Group turnover and earnings

TUI GROUP

The translation of the income statements of foreign subsidiaries in our consolidated financial statements is based on average monthly exchange rates. TUI Group generates a considerable proportion of consolidated turnover and large earnings and cash flow contributions in non-euro currencies, in particular £, $ and SEK. Taking account of the seasonality in tourism, the development of these currencies against the euro in the course of the year therefore strongly impacts the financial indicators carried in TUI Group's consolidated financial statements. The comments on the expected development of our Group in financial year 2018 provided below are based on the assumption of constant currencies for the completed financial year 2017.

Expected development of Group turnover, underlying EBITA and adjustments

	Expected development vs. PY	
€ million	2017	**2018***
Turnover	18,535	around 3 % growth
Underlying EBITA	1,102	at least 10 % growth
Adjustments	76	approx. € 80 m cost

* Variance year-on-year assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current group structure; guidance relates to continuing operations

TURNOVER

We expect turnover to grow by around 3 % in financial year 2018 at constant currency, excluding cost inflation relating to currency movements. Further growth may result from passing on higher input costs to our customers.

UNDERLYING EBITA

TUI Group's underlying EBITA in financial year 2018 is expected to grow by at least 10 % at constant currency as we deliver our growth roadmap. Risks relate to the development of customer numbers against various social and political effects, which impact our customers' booking behaviour as well as demand for Group hotels and cruise ships.

See Business Model and strategy section from page 20
See Risk Report from page 30

ADJUSTMENTS

For financial year 2018, we expect purchase price allocations and net one-off costs of around € 80 m, to be carried as adjustments.

ROIC AND ECONOMIC VALUE ADDED

Due to the enhanced operating result, we expect ROIC to improve slightly in financial year 2018; depending on the development of TUI Group's capital costs, this is also expected to result in an increase in economic value added.

Development in the segments in financial year 2018

The expected development outlined below is based on current trading, our growth roadmap and the relative performance of our segments during financial year 2017. Future development depends on demand in our source markets and customer segments, input cost curves, as well as the potential impact of exogenous events beyond our control such as terrorism. Whilst these may influence the mix of segmental results compared with the outlook below, in our view, our balanced portfolio of markets and destinations still leave us well placed to deliver underlying EBITA growth of at least 10 % for TUI Group as a whole (at constant currency rates and based on the current Group structure).

HOTELS & RESORTS

Based on our expectations for the development of our hotel portfolio (including new hotels opening in the coming financial year and the annualisation of profits from hotels which opened in financial year 2017) as well as the continued overall strong performance of our existing hotel portfolio, we expect underlying EBITA growth of more than 10 % in financial year 2018.

CRUISES

Based on the two planned cruise launches financial year 2018 (for TUI Cruises and Marella Cruises) and continued overall strong performance of the existing fleet, we expect underlying EBITA growth of more than 10 % in financial year 2018.

SOURCE MARKETS

We have strong market leading positions in our Source Markets, and expect a good portfolio result in financial year 2018 as a result of the combination of further top line (market driven) growth and operational efficiency. Based on these factors and current trading, we therefore expect the Source Markets to deliver a performance broadly in line with Group underlying EBITA guidance.

Expected development of financial position

Expected development of Group financial position

	Expected development vs. PY	
€ million	2017	**2018**
Net cash capex and investments	1,071.9	around € 1.2 bn
Net cash / net debt	583.0	slightly negative

NET CAPEX AND INVESTMENTS

In the light of investment decisions already taken and projects in the pipeline, we expect TUI Group's net funding requirements to be around € 1.2 bn for financial year 2018. This includes expected down payments on aircraft orders and proceeds from the sale of fixed assets. Capex mainly relates to the launch of new production and booking systems for our Sales & Marketing, maintenance and expansion of our hotel portfolio and the acquisition of a cruise ship.

NET FINANCIAL POSITION

At the balance sheet date, the Group's net cash amounted to € 583.0 m. Due to the planned increase in net investments, we expect TUI Group's net debt to be slightly negative at financial year-end 2018.

Sustainable development

CLIMATE PROTECTION AND EMISSIONS

Greenhouse gas emissions and the impact of these emissions on climate change pose one of the major global challenges for the tourism sector. The goals we set ourselves in our sustainability strategy 'Better Holidays, Better World', launched in September 2015, include operating Europe's most carbon-efficient airline by 2020 and defending this top position. Specific carbon emissions (g CO_2 / PKM) are to be reduced by 10 % by 2020. We also aim to reduce the carbon intensity of our global operations by 10 % by 2020 (against the baseline of 2014).

Overall Executive Board assessment of TUI Group's current situation and expected development

At the date of preparation of the Management Report (11 December 2017), we uphold our positive assessment of TUI Group's economic situation and outlook for financial year 2018. With its finance profile, strong brand and services portfolio, TUI Group is well positioned in the market. In the first few weeks of the new financial year 2018, the overall business performance has matched expectations.

As against the prior year reference period, we expect TUI Group's underlying operating result to grow by at least 10 % year-on-year on a constant currency basis, driven by improved operating performance in the segments.

In the light of our growth roadmap, we have updated our medium-term guidance, aiming to deliver at least 10 % underlying EBITA CAGR in the next three financial years to 2020. Our long-term target for TUI Group's gross capex remains at 3 to 3.5 % of consolidated turnover.

Outlook for TUI AG

The future business performance of TUI AG is essentially subject to the same factors as those impacting TUI Group. Due to the business ties between TUI AG and its Group companies, the outlook, opportunities and risks presented for TUI Group largely reflect the expectations regarding TUI AG. The comments made for TUI Group therefore also apply to TUI AG.

Opportunity Report

TUI Group's opportunity management follows the Group strategy for core business Tourism. Responsibility for systematically identifying and taking up opportunities rests with the operational management of the source markets and the TUI Hotels & Resorts and Cruises segments. Market scenarios and critical success factors for the individual sectors are analysed and assessed in the framework of the Group-wide planning and control process. The core task of the Group's Executive Board is to secure profitable growth for TUI Group by optimising the shareholding portfolio and developing the Group structure over the long term.

Overall, TUI Group is well positioned to benefit from opportunities resulting from the main trends in its markets.

OPPORTUNITIES FROM THE DEVELOPMENT OF THE OVERALL FRAMEWORK

Should the economy perform better than expected, TUI Group and its segments would benefit from the resulting increase in demand in the travel market. Moreover, changes in the competitive environment could create opportunities for TUI Group in individual markets.

CORPORATE STRATEGY

We see opportunities for further organic growth in particular by expanding our hotel portfolio and cruise business. As market leader, we also intend to benefit in the long term from demographic change and the resulting expected increase in demand for high-quality travel at an attractive price / performance ratio.

OPERATIONAL OPPORTUNITIES

We intend to improve our competitive position further by offering unique product and further expanding controlled distribution in the source markets, in particular online distribution.

BUSINESS REVIEW

Why we do it – macroeconomic industry and market framework

Macroeconomic development

Development of gross domestic product

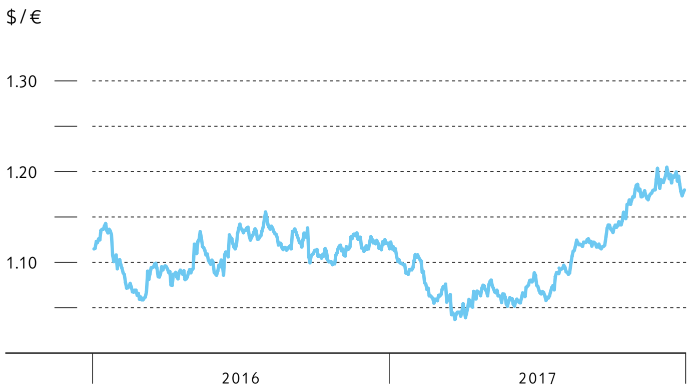
Var. %	2017	2016
World	**3.6**	**3.2**
Eurozone	2.1	1.8
Germany	2.0	1.9
France	1.6	1.2
UK	1.7	1.8
US	2.2	1.5
Russia	1.8	–0.2
Japan	1.5	1.0
China	6.8	6.7
India	6.7	7.1

Source: International Monetary Fund (IMF), World Economic Outlook, October 2017

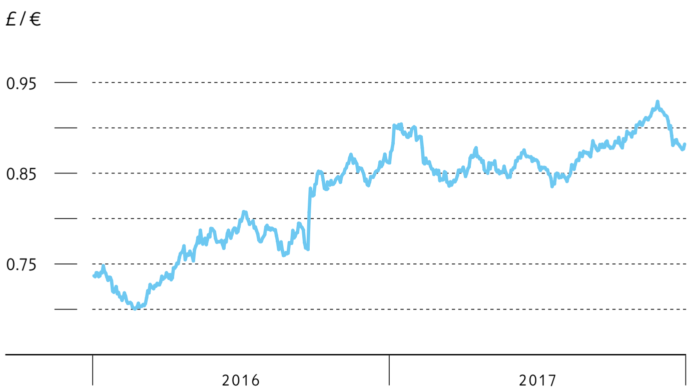
In calendar year 2017, the global upswing in economic activity gathered strength. In its outlook (IMF, World Economic Outlook, October 2017), the International Monetary Fund projects global growth to rise to 3.6 % in 2017. In advanced economies, the growth pick-up was broad-based, with indicators suggesting a persistently positive baseline outlook. In the Eurozone, the recovery gained momentum: higher employment, growing order books and the positive business sentiment suggest that the momentum will remain intact.

Key exchange rates and commodity prices

Exchange rate US Dollar



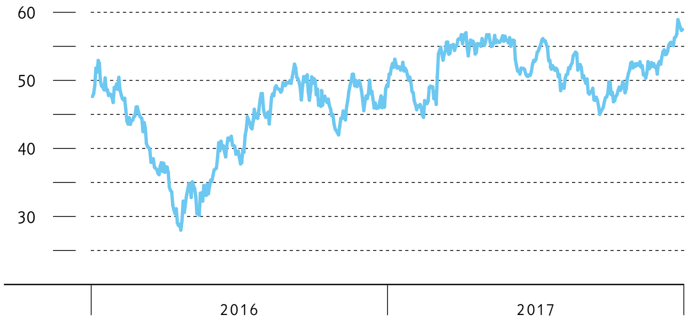
Exchange rate Sterling



The exchange rate charts are presented on the basis of the indirect quotation format customary in the foreign exchange market. If the exchange rate falls, the foreign currency is appreciating against the euro. By contrast, if the exchange rate rises, the foreign currency is depreciating against the euro.

Oil price

Brent ($ / Barrel)



TUI Group companies operate on a worldwide scale. This presents financial risks for TUI Group, arising from changes in exchange rates and commodity prices. The essential financial transaction risks from operations relate to euros and US dollars. They mainly result from foreign exchange items in the individual Group companies, for instance aircraft fuel and bunker oil invoices, ship handling costs or products and services sourced by hotels. The parity of sterling against the euro is of relevance for the translation of results generated in the UK market in TUI's consolidated financial statements. Following the UK vote for Brexit, the currency fluctuations continued. They impacted the translation of results from our UK business.

The average exchange rate of sterling against the euro fell considerably in the course of the financial year under review but returned to 0.88 £ / €, i.e. roughly the level recorded at the beginning of the year, as at 30 September 2017. In financial year 2017, the average exchange rate of the US dollar against the euro declined by around 5.4 % from 1.12 $ / € to 1.18 $ / €. Changes in commodity prices above all affect TUI Group when procuring fuels such as aircraft fuel and bunker oil. The price of Brent oil stood at $ 57.54 per barrel as at 30 September 2017, up by around 13.1 % year-on-year.

In tourism, most risks relating to changes in exchange rates and price risks from fuel sourcing are hedged by derivatives. 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 sections Financial Position and Risk Report in the Management Report and the section Financial Instruments in the Notes to the consolidated financial statements.

Financial Position see from page 66, Risk Report see from page 30, Financial Instruments see Notes page 209

Market environment and competition in Tourism

Since the merger between TUI AG and TUI Travel PLC in December 2014, TUI Group has been the world's leading tourism group. The development of the international leisure tourism market impacts all businesses in TUI Group.

TOURISM REMAINS STABLE GROWTH SECTOR

According to the United Nations World Tourism Organization (UNWTO), tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The key tourism indicators to measure market size are the number of international tourist arrivals, and international tourism receipts. With international tourism receipts amounting to $ 1,220 bn and international arrivals amounting to 1.24 bn in 2016, the tourism industry remains one of the most important sectors in the global economy, outpacing the growth of world trade in the past five years. Over the past six decades, tourism has experienced continued expansion and diversification to become one of the largest and fastest-growing economic sectors in the world. International tourist arrivals worldwide are expected to increase by around 3 % a year between 2010 and 2030, reaching 1.8 bn per annum by 2030 (UNWTO Tourism Highlights 2017 Edition).

Change of international tourist arrivals vs. prior year

Var. %	**2017***	2016
World	**+ 6.4**	**+ 3.9**
Europe	+ 7.7	+ 2.1
Asia and the Pacific	+ 5.7	+ 8.6
Americas	+ 3.0	+ 3.6
Afrika	+ 7.6	+ 8.0
Middle East	+ 8.9	– 3.4

Source: UNWTO World Tourism Barometer, August 2017
* Period January till June

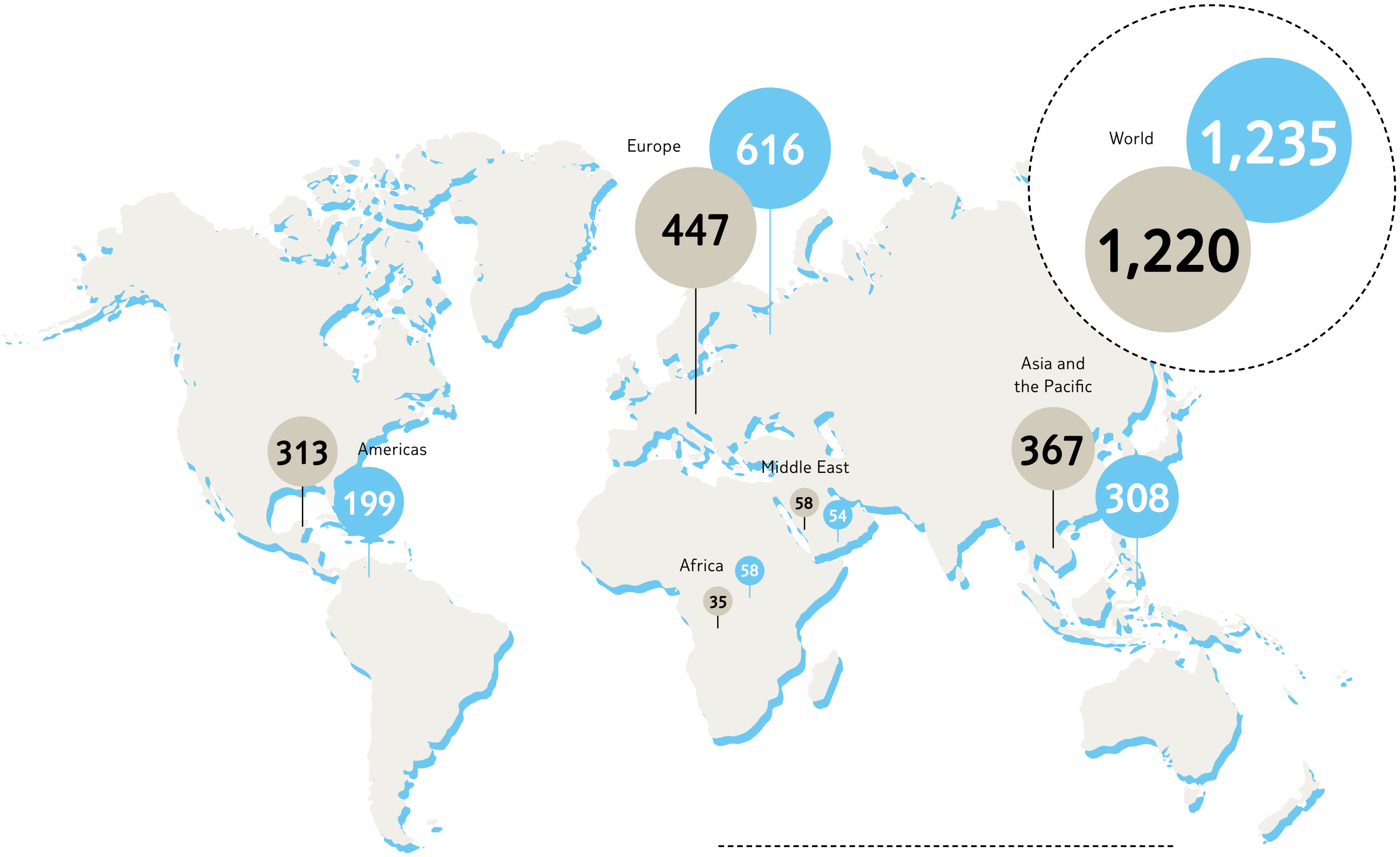
In the first half of calendar year 2017, the growth trend continued, with international tourist arrivals growing by 6.4 % during that period. This was the strongest H1 increase in seven years. Travel for holidays, recreation and other forms of leisure accounted for just over half of all international tourist arrivals (UNWTO, Tourism Highlights, 2017 Edition).

At plus 6.3 %, TUI Group customer numbers matched this growth trend in financial year 2017, with all source markets reporting growth.

Business performance in the source markets see page 61

Europe remained the largest and most mature tourism market in the world, accounting for 49.9 % of international tourist arrivals and 36.7 % of tourism receipts in 2016. Five European countries (France, Spain, Italy, the United Kingdom and Germany) figured in the top ten international tourism destinations in 2016. Three of our main source markets – Germany, UK and France – were in the top five of all source markets worldwide measured by international tourism spending.

International tourist arrivals and receipts



international tourism receipts (in bn $)

international tourist arrivals (in million)

Source: UNWTO, Tourism Highlights, 2017 Edition

Germany continues to be the third largest source market in the world with international tourism expenditure of approximately $ 79.8 bn in 2016, after China ($ 261.1 bn) and the US ($ 123.6 bn). In terms of expenditure per capita, Germany ranks fourth globally, with approximately $ 946 spent by the average German tourist in 2016 (Source: UNWTO, Tourism Highlights, 2017 Edition). Key operators in the German tourism market are TUI Deutschland, Thomas Cook, DER Touristik, FTI and Aida Cruises (FVW, Dossier, Deutsche Veranstalter, December 2016).

The United Kingdom is the fourth largest source market in the world, with approximately $ 63.6 bn spent on tourism activities in 2016 and on average $ 970 spent per capita over the same period (source: UNWTO, Tourism Highlights, 2017 Edition). The British tourism market is characterised by a high degree of concentration around two key operators: TUI Group and Thomas Cook.

France was the fifth largest source market in 2016, with international tourism expenditure of approximately $ 40.5 bn (source: UNWTO, Tourism Highlights, 2017 Edition). Thanks to the recent buying of Transat France, TUI is now the leader on the French tourism market with its main tour operator brands: Club Marmara and Club Lookea on the French Club market, and Circuits Nouvelles Frontieres and Vacances Transat on the packaged tours market. This buying is to enable TUI France to achieve robust profitability. The French tourism market has been highly fragmented in the past but has undergone a slow consolidation in recent months. TUI France will continue to expand its market position and market shares, while growing TUI brand awareness among French people. In 2016, France remained the world's top destination with 82.6 million arrivals, despite a decline in international tourist arrivals of 2.2 %.

HOTEL MARKET

Global hotel value sales reached € 470 bn at fixed exchange rate in 2016. Over the period 2016 – 2022, hotel value sales are expected to register a CAGR of 2.8 % at constant 2017 prices, according to Euromonitor International Travel 2018 edition. The hotel market is divided between business and leisure travel. A number of characteristics differentiate leisure travel hotels from business hotels, including longer average lengths of stay for guests in leisure hotels. Locations, amenities and service requirements also differ. From a demand perspective, the leisure hotel market in Europe is divided into several smaller submarkets which cater to the individual needs and demands of tourists. These submarkets include premium, comfort, budget, family / apartment, and club or resort-style hotels. Hotel companies may offer a variety of hotels for different submarkets, often defined by price range, star ratings, exclusivity, or available facilities.

Hotel operations can generally be divided into the following models: asset owners whose primary business is to own real estate assets; brand owners and operators who typically manage hotel assets themselves or enter into franchising arrangements with independent operators who, in turn, manage the hotel property assets; and independent operators combining the roles of asset owners, brand owners and operators by managing diverse assets under different brands, often through franchise agreements.

The upper end of the leisure hotel market is characterised by a high degree of sophistication and specialisation, with the assets managed by large international companies and investors. There are also many small, often family-run businesses, particularly in Europe, not quite so upscale and with fewer financial resources. Most family-owned and operated businesses are not branded. Given the variety of models for owning and operating leisure hotels and the fragmented competition landscape which, at least in Europe, is not dominated by large hotel chains, conditions differ greatly between locations.

CRUISE MARKET

The global cruise industry generated an estimated revenue of around $ 39.6 bn in 2016 (Cruise Market Watch website, www.cruisemarketwatch.com/market-share, September 2016). Overall, an estimated 24.7 million guests undertook an ocean cruise worldwide in calendar year 2016. For 2017, their number is expected to total 25.8 million (CLIA, Year in Review 2016, CLIA, Cruises Industry Outlook 2017). The North American market is by far the largest and most mature cruise market in the world, with a strong penetration rate of 3.6 % of the total population taking a cruise in 2016 (Cruise Industry Source Market Report, CLIA 2016).

The European cruise markets recorded approximately 6.7 million European passengers in 2016, with penetration rates varying significantly from country to country, but considerably lower overall (Mintel, Cruises – International, June 2016; CLIA Statistics & Markets, March 2017). In 2015, the global cruise market grew by around 2.4 %.

Germany, the United Kingdom & Ireland and France are among the five largest cruise markets in Europe (CLIA Statistics & Markets, March 2017). Germany is Europe's largest cruise market, with 2.0 million passengers in 2016. Germany has thus witnessed average passenger growth of 8.3 % over the period from 2011 to 2015. At 2.5 % in 2016, its penetration rate was lower than in the United Kingdom & Ireland. The United Kingdom & Ireland is the second largest cruise market in Europe, with approximately 1.9 million cruise passengers in 2016. The market thus grew by 2.1 % on average over the period from 2011 to 2015. It shows the strongest penetration rate in Europe: in 2016, 3.0 % of the total British population took a cruise. (Mintel, Cruises – International, June 2016; Cruise Industry Source Market Report, CLIA 2016).

The European cruise market is divided into submarkets that cater to a variety of customers: budget, discovery / expedition, premium and luxury. Cruise operators utilise different cruise formats to target these submarkets and the specific demands of their customers. In addition to traditional formats, operators offer club ship cruises and also more contemporary-style cruises in the premium submarket. As a cruise ship is often perceived as a destination in itself, cruise companies, especially in the luxury and premium cruise submarkets, compete with other destinations such as leading hotels and resorts.

Brand

STRONG TUI BRAND

Our brand with the 'smile' – the smiling logo formed by the three letters of our brand name TUI – stands for a consistent customer experience, digital presence and competitive strength. In 2017, TUI and the previous local power brand Thomson in the UK were among the best-known travel brands in core European countries with a brand awareness rate of almost 90 %. The red 'TUI smile' is a clear recognition feature and plays in the Champions League of international brands in almost all markets.

We are aiming to create one global branding and a consistent brand experience in order to further leverage the appeal and strength of our core brands and tap the associated growth potential. To achieve that goal, our core brand TUI is being rolled out in our European source markets to replace the big local tour operator brands. Following the successful rollout of the TUI brand in the Netherlands in 2016, the local brands in Belgium and the Nordics were replaced by the TUI brand in 2017, where TUI has also rapidly become one of the strongest travel brands in terms of brand awareness and preference. In financial year 2017, the TUI brand was also rolled out in France. Brand migration in the UK followed in October 2017.

In Germany, travel products have been offered under the TUI brand for more than 45 years. In a survey carried out in 2017, TUI was again rated as Germany's most trusted travel brand (Source: Reader's Digest Trusted Brands 2017).

Changes in the legal framework

In financial year 2017, there were no changes in the legal framework with material impacts on TUI Group's business performance.

Group earnings

Comments on the consolidated income statement

Financial year 2017 brought a markedly positive development in the TUI Group's earnings position. The operating result (underlying EBITA) of TUI Group's continuing operations improved by 10.2 % to € 1,102.1 m in the period under review, or by 12.0 % year-on-year on a constant currency basis. This growth was driven in particular by the continued good performance in the segments Hotels & Resorts and Cruises.

Income Statement of the TUI Group for the period from 1 Oct 2016 to 30 Sep 2017

€ million	2017	2016	Var. %
Turnover	**18,535.0**	**17,153.9**	**+ 8.1**
Cost of sales	16,535.5	15,247.4	+ 8.4
Gross profit	**1,999.5**	**1,906.5**	**+ 4.9**
Administrative expenses	1,255.8	1,216.9	+ 3.2
Other income	12.5	36.3	– 65.6
Other expenses	1.9	7.4	– 74.3
Financial income	229.3	58.5	+ 292.0
Financial expenses	156.2	345.9	– 54.8
Share of result of joint ventures and associates	252.3	187.2	+ 34.8
Earnings before income taxes	**1,079.7**	**618.3**	**+ 74.6**
Income taxes	168.8	153.4	+ 10.0
Result from continuing operations	**910.9**	**464.9**	**+ 95.9**
Result from discontinued operations	– 149.5	687.3	n. a.
Group profit for the year	**761.4**	**1,152.2**	**– 33.9**
Group profit for the year attributable to shareholders of TUI AG	644.8	1,037.4	– 37.8
Group profit for the year attributable to non-controlling interest	116.6	114.8	+ 1.6

Turnover and cost of sales

Turnover

€ million	2017	2016 restated	Var. %
Hotels & Resorts	679.0	618.6	+9.8
Cruises	815.0	703.1	+15.9
Source Markets	16,143.2	14,997.2	+7.6
Northern Region	6,601.5	6,564.4	+0.6
Central Region	6,039.5	5,562.9	+8.6
Western Region	3,502.2	2,869.9	+22.0
Other Tourism	677.0	669.3	+1.2
Tourism	**18,314.2**	**16,988.2**	**+7.8**
All other segments	220.8	165.7	+33.3
TUI Group	**18,535.0**	**17,153.9**	**+8.1**
TUI Group at constant currency	**19,156.5**	**17,153.9**	**+11.7**
Discontinued operations	829.0	2,321.6	−64.3
Total	**19,364.0**	**19,475.5**	**−0.6**

In financial year 2017, turnover of TUI Group climbed by 8.1 % to € 18.5 bn. On a constant currency basis, turnover grew by 11.7 % on a year-on-year increase in customer numbers of 6.3 % in the source markets. Turnover is presented alongside the cost of sales, which was up 8.4 % in the period under review.

GROSS PROFIT

Gross profit, i.e. the difference between turnover and the cost of sales, increased by 4.9 % to around € 2.0 bn in financial year 2017.

ADMINISTRATIVE EXPENSES

Administrative expenses rose by € 38.9 m year-on-year to € 1,255.8 m.

FINANCIAL RESULT

The financial result improved by € 360.5 m to € 73.1 m. The increase was essentially due to the profit generated in the financial year under review from the disposal of the remaining stake in Hapag-Lloyd AG.

SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

The result from joint ventures and associates comprises the proportionate net profit for the year of the companies measured at equity and where appropriate impairments of goodwill for these companies. In the period under review, the at equity result totalled € 252.3 m. The significant increase of € 65.1 m partly resulted from the improvement in the operating performance of Riu hotels and a higher profit contribution by TUI Cruises.

RESULT FROM CONTINUING OPERATIONS

The result from continuing operations improved by € 446.0 m to € 910.9 m in financial year 2017.

RESULT FROM DISCONTINUED OPERATION

The result from discontinued operation shows the after-tax result of Travelopia, classified as a discontinued operation, until it was sold. In the prior year, this item also included in particular the gain on disposal from the sale of Hotelbeds Group.

GROUP PROFIT

Group profit decreased by € 390.8 m year-on-year to € 761.4 m in financial year 2017.

SHARE IN GROUP PROFIT ATTRIBUTABLE TO TUI AG SHAREHOLDERS

The share in Group profit attributable to the TUI AG shareholders declined from € 1,037.4 m in the prior year to € 644.8 m in financial year 2017. On a sound operating performance, the decline is attributable to the gain on disposal from the sale of Hotelbeds Group included in the prior year's result.

NON-CONTROLLING INTERESTS

Non-controlling interests in Group profit for the year totalled € 116.6 m. They mainly related to RIUSA II Group.

EARNINGS PER SHARE

The interest in Group profit for the year attributable to TUI AG shareholders after deduction of non-controlling interests totalled € 644.8 m (previous year € 1,037.4 m) in 2017. Basic earnings per share therefore amounted to € 1.10 (previous year € 1.78) in financial year 2017.

EBITA, underlying EBITA und underlying earnings per share

Key indicators used to manage the TUI Group are EBITA and underlying EBITA. We consider EBITA to be the most suitable performance indicator for explaining the development of the TUI Group's operating performance. Our definition of EBITA is earnings before net interest result, income tax and impairment of goodwill excluding the result from the measurement of interest hedges.

Reconciliation to underlying EBITA

€ million	2017	2016	Var. %
Earnings before income taxes	**1,079.7**	**618.3**	**+74.6**
plus: Profit on sale of financial investment in Container Shipping	–172.4	–	n. a.
plus: Loss on measurement of financial investment in Container Shipping	–	100.3	n. a.
plus: Net Interest expense and expense from the measurement of interest hedges	119.2	179.5	–33.6
EBITA	**1,026.5**	**898.1**	**+14.3**
Adjustments:			
less: Gain on disposals	–2.2	0.8	n. a.
plus: Restructuring expense	23.1	12.0	+92.5
plus: Expense from purchase price allocation	29.2	41.9	–30.3
plus: Expense from other one-off items	25.5	47.7	–46.5
Underlying EBITA	**1,102.1**	**1,000.5**	**+10.2**

Reported earnings (EBITA) of TUI Group rose by € 128.4 m to € 1,026.5 m due to a strong operating performance in financial year 2017.

EBITA

€ million	2017	2016 restated	Var. %
Hotels & Resorts	353.7	301.5	+17.3
Cruises	255.6	190.9	+33.9
Source Markets	456.3	498.8	–8.5
Northern Region	309.6	362.7	–14.6
Central Region	67.3	64.0	+5.2
Western Region	79.4	72.1	+10.1
Other Tourism	15.7	–2.9	n. a.
Tourism	1,081.3	988.3	+9.4
All other segments	–54.8	–90.2	+39.2
TUI Group	**1,026.5**	**898.1**	**+14.3**
Discontinued operations	–22.1	14.7	n. a.
Total	**1,004.4**	**912.8**	**+10.0**

In order to explain and evaluate the operating performance of the segments, earnings adjusted for special one-off effects (underlying EBITA) are presented below. Underlying EBITA has been adjusted for gains on disposal of financial investments, restructuring expenses according to IAS 37, all effects from purchase price allocations, ancillary acquisition costs and conditional purchase price payments and other expenses for and income from one-off items.

One-off items carried here include adjustments for income and expense items that reflect amounts and frequencies of occurrence rendering an evaluation of the operating profitability of the segments and the Group more difficult or causing distortions. These items include in particular major restructuring and integration expenses not meeting the criteria of IAS 37, material expenses for litigation, gains and losses from the sale of aircraft and other material business transactions with a one-off character.

TUI Group's underlying EBITA rose by € 101.6 m to € 1,102.1 m in financial year 2017.

Underlying EBITA

€ million	2017	2016	Var. %
Hotels & Resorts	356.5	303.8	+17.3
Cruises	255.6	190.9	+33.9
Source Markets	526.5	554.3	–5.0
Northern Region	345.8	383.1	–9.7
Central Region	71.5	85.1	–16.0
Western Region	109.2	86.1	+26.8
Other Tourism	13.4	7.9	+69.6
Tourism	1,152.0	1,056.9	+9.0
All other segments	–49.9	–56.4	+11.5
TUI Group	**1,102.1**	**1,000.5**	**+10.2**
TUI Group at constant currency	**1,120.7**	**1,000.5**	**+12.0**
Discontinued operations	–1.2	92.9	n. a.
Total	**1,100.9**	**1,093.4**	**+0.7**

In financial year 2017, adjustments worth € 25.8 m were carried for income, compared with adjustments on underlying expenses amounting to € 72.2 m, without taking account of the expenses for purchase price allocations. They mainly related to the following items and circumstances:

GAINS ON DISPOSAL

In financial year 2017, gains on disposal worth € 2.2 m had to be adjusted for. They related in particular to disposals of subsidiaries.

RESTRUCTURING COSTS

In financial year 2017, restructuring costs of € 23.1 m had to be adjusted for. They included an amount of around € 24 m for the merger of TUI's French tour operators following the acquisition of Transat. Adjustments also included expenses worth around € 4 m for the merger of the Nordic and UK airlines. Income resulted from the release of a restructuring provision no longer required in Central Region.

EXPENSES FOR PURCHASE PRICE ALLOCATIONS

In financial year 2017, expenses for purchase price allocations worth € 29.2 m were adjusted for; they related in particular to scheduled amortisation of intangible assets from acquisitions made in previous years.

ONE-OFF ITEMS

Net expenses for one-off items of € 25.5 m included in particular an amount of € 18 m relating to IT projects in Northern Region and around € 8 m for the merger of the Nordic and UK airlines. Further expenses of € 17 m related to reorganisation schemes in the regions and destination agencies. An opposite effect resulted from the adjustment of € 13 m for the release of a provision at Corsair no longer required in the financial year under review.

PRO FORMA UNDERLYING EARNINGS PER SHARE

The table below presents TUI Group's pro forma earnings per share to provide a basis for comparison. The calculation is based on the issued share capital at the balance sheet date. It therefore adjusts for the impact of conversions of stock option plans during the year.

Pro forma underlying earnings per share TUI Group

€ million		**2017**	2016
EBITA (underlying)		**1,102.1**	**1,000.5**
less: Net interest expense		–119.2	–179.5
Underlying profit before tax		**982.9**	**821.1**
Income taxes (underlying)		196.6	205.3
Underlying Group profit		**786.3**	**615.8**
Minority interest		116.6	111.5
Underlying Group profit attributable to TUI shareholders of TUI AG		**669.7**	**504.3**
Number of shares (pro forma)	No. million	587.0	587.0
Pro forma underlying earnings per share		**1.14**	**0.86**

Reconciliation to EBITDA

€ million	**2017**	2016	Var. %
EBITA	**1,026.5**	**898.1**	**+14.3**
Amortisation (+)/write-backs (–) of other intangible assets and depreciation (+)/write-backs (–) of property, plant and equipment and current assets	464.4	407.0	+14.1
EBITDA	**1,490.9**	**1,305.1**	**+14.2**

EBITDA and underlying EBITDA

€ million	EBITDA			Underlying EBITDA		
	2017	2016 restated	Var. %	**2017**	2016 restated	Var. %
Hotels & Resorts	484.5	396.5	+ 22.2	485.2	394.4	+ 23.0
Cruises	312.9	236.8	+ 32.1	312.9	236.8	+ 32.1
Source Markets	568.2	614.4	–7.5	619.3	650.9	– 4.9
Northern Region	378.6	430.3	–12.0	402.7	437.3	–7.9
Central Region	87.6	86.3	+1.5	89.8	105.3	–14.7
Western Region	102.0	97.9	+ 4.2	126.8	108.3	+17.1
Other Tourism	102.3	58.2	+75.8	100.0	69.0	+ 44.9
Tourism	1,467.9	1,306.0	+12.4	1,517.4	1,351.1	+12.3
All other segments	23.0	– 0.9	n. a.	24.3	28.5	–14.7
TUI Group	**1,490.9**	**1,305.1**	**+14.2**	**1,541.7**	**1,379.6**	**+11.7**
Discontinued operations	– 22.1	85.6	n. a.	–1.2	139.2	n. a.
Total	**1,468.8**	**1,390.7**	**+ 5.6**	**1,540.5**	**1,518.8**	**+1.4**

Segmental performance

Current and future trading in Tourism

In Tourism, travel products are booked on a seasonal basis with different lead times. The release of bookings for individual seasons takes place at different points in time, depending on the design of the booking and reservation systems in each source market. Moreover, load factor management ensures that the tour operator capacity available for bookings is seasonally adjusted to actual and expected demand.

At the end of financial year 2017, current trading by source market for Winter 2017 / 18 compared as follows with the previous year:

Current Trading*

	Winter 2017 / 18			
Var. %	Revenue	Total customers	Total ASP	Programme sold
Northern Region	**+6**	**–**	**+6**	**+63**
UK & I	+3	–4	+8	+57
Memo: UK & I incl. Cruise	+7	–3	+10	+59
Nordics	+10	+7	+3	+74
Central Region	**+7**	**+8**	**–1**	**+64**
Germany	+9	+9	+1	+63
Western Region	**+3**	**–**	**+3**	**+65**
Benelux	+4	+2	+2	+65
Total Source Markets	**+6**	**+3**	**+3**	**+63**
Memo: Total Source Markets incl. UK Cruise	**+7**	**+3**	**+3**	**+64**

* These statistics are up to 3 December 2017, shown on a constant currency basis and relate to all customers whether risk or non-risk

For the 2018 Summer season, as usual for this point in the booking cycle, only the UK is more than 20 % booked. UK booked revenue (excluding Marella Cruises) is up 2 % and average selling prices up 4 % (November 2017).

Trading by the Hotels & Resorts segment largely mirrors customer volumes in the source markets, as a high proportion of the Group-owned hotel beds are taken up by TUI tour operators. In the Cruises segment, advance bookings were up year-on-year at the balance sheet date with sound demand levels, primarily due to continued fleet expansion and modernisation by TUI Cruises and Marella Cruises in the period under review.

Disclosures on current trading are regularly published on TUI's website in the framework of TUI Group's quarterly reporting.

⊕ *See www.tuigroup.com/en-en/investors*

Hotels & Resorts

Hotels & Resorts

€ million	2017	2016 restated	Var. %
Total turnover	1,366.2	1,278.4	+ 6.9
Turnover	679.0	618.6	+ 9.8
Underlying EBITA	356.5	303.8	+ 17.3
Underlying EBITA at constant currency	362.0	303.8	+ 19.2
Capacity hotels total[1,4] in '000	39,163	37,306	+ 5.0
Riu	17,942	17,396	+ 3.1
Robinson	3,115	3,081	+ 1.1
Blue Diamond	2,859	2,275	+ 25.6
Occupancy rate hotels total[2] in %, variance in % points	79	78	+ 1
Riu	90	90	–
Robinson	66	67	– 1
Blue Diamond	83	85	– 3
Average revenue per bed hotels total[3] in €	63	60	+ 5.5
Riu	64	60	+ 6.0
Robinson	91	90	+ 0.8
Blue Diamond	112	92	+ 22.5

Turnover includes fully consolidated companies, all other KPI's incl. companies measured at equity
[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
[4] Previous year's KPIs restated

Hotels & Resorts delivered a significant increase in underlying EBITA this year, driven by new hotel openings and a strong underlying trading performance, with an increase in occupancy rate to 79 % and 6 % increase in average revenue per bed. Financial year 2017 also marks the fourth consecutive year of increasing ROIC for Hotels & Resorts, to 13.2 % (versus WACC 8.5 %). This demonstrates the attractiveness of our portfolio of hotel and club brands, the strength of our distribution capabilities, and our disciplined approach to investment.

- Overall, the increase in Hotels & Resorts earnings was driven by strong performances in the Western Mediterranean and Caribbean, as well as an improvement in earnings in Turkey and North Africa where demand in general has been recovering. This includes the removal of travel restrictions for Russian customers on travel to Turkey, as well as improved Source Market demand for Egypt. The high level of hurricane activity in the Caribbean at the end of Financial year 2017 resulted in damage to some hotels. However, taking into account our insurance coverage, the hurricanes did not result in a significant impact on the Hotels & Resorts result.
- The continued high occupancy rate demonstrates the strength of our portfolio of brands and destinations, as well as the success of the integrated model as a significant proportion of rooms are sold is via our Source Markets. This also provides a significant de-risk when introducing new hotels.
- In line with our strategy of disciplined growth in own hotel content, ten new hotels were opened this year, bringing the total since the merger to 28. Hotels were opened in Jamaica, St Lucia ,Tenerife, Italy and Croatia by Riu, Blue Diamond and TUI Blue. In addition, two hotels in Germany and Austria were repositioned as TUI Blue.
- Riu continues to deliver a very high occupancy rate of 90 %, with an increase in average revenue per bed of 6 %. Performance was particularly strong in Spain and Mexico, and the result also reflects the opening of the Riu Reggae in Jamaica in November 2016. Robinson delivered a 1 % increase in average revenue per bed and a stable earnings performance. Demand for Robinson clubs in Turkey (which comes mainly from our German customer base) continues to relatively subdued versus other destinations. Blue Diamond earnings increased as a result of hotel openings in the Caribbean, with a continued high level of occupancy despite these new openings.

Cruise

Cruises

€ million	2017	2016 restated	Var. %
Turnover[1]	815.0	703.1	+ 15.9
Underlying EBITA	255.6	190.9	+ 33.9
Underlying EBITA at constant currency	263.5	190.9	+ 38.0
Occupany in %, variance in % points			
TUI Cruises	101.9	102.6	– 0.7
Marella Cruises[4]	101.7	100.6	+ 1.1
Hapag-Lloyd Cruises	76.7	76.8	–
Passenger days in '000			
TUI Cruises	4,483	3,482	+ 28.7
Marella Cruises[4]	2,720	2,081	+ 30.7
Hapag-Lloyd Cruises	349	355	– 1.7
Average daily rates[2] in €			
TUI Cruises	173	171	+ 1.2
Marella Cruises[3,4]	131	121	+ 8.3
Hapag-Lloyd Cruises	594	579	+ 2.6

[1] No turnover is carried for TUI Cruises as the joint venture is consolidated at equity
[2] Per day and passenger
[3] Inclusive of transfers, flights and hotels due to the integrated nature of Marella Cruises, in £.
[4] Thomson Cruises until October 2017

- Cruise delivered strong earnings growth as a result of new ship launches in Germany and UK, with continued high occupancy and average daily rates across the fleets. Overall, the segment delivered a strong ROIC performance of 19.9 % (versus WACC 5.25 %), reflecting our equity participation in TUI Cruises as well as excellent performances by our UK and Hapag-Lloyd Cruises subsidiaries.
- TUI Cruises (our joint venture with Royal Caribbean for the German speaking market) delivered the first Winter of operations for Mein Schiff 5 and launched Mein Schiff 6 in June 2017. Fleet and average daily rate increased versus prior year, driven by the continued strength of demand for TUI Cruises' premium, all inclusive offering.
- Marella Cruises (our UK brand, previously Thomson Cruises) delivered the first Winter of operations for the Marella Discovery and launched Marella Discovery 2 in May. Fleet occupancy and average daily rate increased versus prior year, as we continue to deliver our modernisation programme and expansion in line with the UK cruise market.
- Hapag-Lloyd Cruises (our luxury and expedition brand) delivered a strong performance and increase in earnings, with increased average daily rate and a good operational performance offsetting the lower number of operating days.

Source Markets

Source Markets

€ million	**2017**	2016 restated	Var. %
Turnover	16,143.2	14,997.2	+7.6
Underlying EBITA	526.5	554.3	– 5.0
Underlying EBITA at constant currency	532.1	554.3	– 4.0
Net Promoter Score[1] in %, variance in % points	50	49	+1
Customer satisfaction holiday overall[2]	8.59	8.56	+ 0.03
Direct distribution[3] in %, variance in % points	73	72	+1
Online distribution[4] in %, variance in % points	46	43	+ 3
Customers in '000	20,184	18,986	+ 6.3

[1] NPS is measured in customer satisfaction questionnaires completed post-holiday. It is based on the question 'On a scale of 0 to 10 where 10 is extremely likely and 0 is not at all likely, how likely is it that you would recommend the brand to a friend, colleague or relative?' and is calculated by taking the percentage of promoters (9s and 10s) less the percentage of detractors (0s through 6s)
[2] Customer satisfaction for holiday overall is measured in customer satisfaction questionnaires completed post-holiday, based on a customer rating on a scale of 0 to 10.
[3] Share of sales via own channels (retails and online)
[4] Share of online sales

Source Markets delivered a strong portfolio performance, thanks to their geographic diversity, market leading positions, popular range of holiday products and focus on efficiency. Having completed the TUI rebrand in all major markets, we have grown customer volumes and delivered higher levels of direct and online distribution, and will be able to market the brand more efficiently in the future. We also continue to leverage our market leading distribution capability to both maximise occupancy in TUI Group hotels and support strong relationships with third party hoteliers.

Northern Region

€ million	2017	2016	Var. %
Turnover	6,601.5	6,564.4	+ 0.6
Underlying EBITA	345.8	383.1	– 9.7
Underlying EBITA at constant currency	351.1	383.1	– 8.4
Direct distribution[1] in %, variance in % points	92	92	–
Online distribution[2] in %, variance in % points	63	62	+ 1
Customers in '000	7,391	7,142	+ 3.5

[1] Share of sales via own channels (retails and online)
[2] Share of online sales

Central Region

€ million	2017	2016 restated	Var. %
Turnover	6,039.5	5,562.9	+ 8.6
Underlying EBITA	71.5	85.1	–16.0
Underlying EBITA at constant currency	71.7	85.1	–15.7
Direct distribution[1] in %, variance in % points	49	47	+ 2
Online distribution[2] in %, variance in % points	19	15	+ 4
Customers in '000	7,151	6,828	+ 4.7

[1] Share of sales via own channels (retails and online)
[2] Share of online sales

Northern Region comprises TUI's sales and marketing subsidiaries in UK and Nordics and joint ventures in Canada and Russia. Overall, Northern Region delivered strong growth in turnover and customer volumes this year with continued high levels of direct and online distribution, despite a significant impact at the end of the financial year from repatriation and cancellation costs associated with the hurricanes in Florida and the Caribbean.

- As expected, although UK demand for holidays abroad remains strong, margins across the package holiday market are normalising, particularly as a result of the weaker Pound Sterling. This is reflected to some extent in our financial year 2017 result. Nonetheless, our margins remain healthy and we are well positioned competitively. TUI is the clear market leader with a strong net promoter score of 55, high levels of direct (93 %) and online (59 %) distribution, and a highly integrated and efficient business model.
- In Nordics, both turnover and earnings performance improved compared with prior year. This was driven by a particularly strong Summer, following the TUI rebrand and successful remix to destinations such as Spain, Cyprus, Bulgaria and Croatia, as demand for Turkey continued to be more subdued. With a new management team in place, Nordics' operations are becoming more efficient, having implemented the same yield management system as UK this year, as well as delivering overhead savings.
- Earnings in Canada increased this year as a result of strong trading, including for Group hotels such as Blue Diamond and Riu. Earnings in Russia decreased slightly due to the non-repeat of prior year provision releases.

Central Region comprises TUI's sales and marketing operations in Germany and Austria (operated as one market), Switzerland and Poland. Turnover for the segment increased by 9 % in financial year 2017, driven by higher volumes in all markets, and with an increase in direct and online distribution.

- Germany and Austria delivered 2 % increase in customer volumes and further increase in market share, with a good performance and improvement in trading margin particularly in the second half of the year. Demand increased in particular for Greece, Spain, Egypt and long haul, which helped to offset the continued subdued demand for Turkey in the year.
- As previously communicated this was offset by € 24 m impact from the sickness incident in TUI fly at the start of the year.
- We remain focussed on growing the proportion of direct and online distribution in Germany, currently at 47 % and 18 % The increase in direct distribution, coupled with our ongoing cost savings programme, have also benefitted the result this year.
- Switzerland and Poland both delivered a good performance this year, with an increase in customer volumes, turnover and earnings.
- The Central Region result also includes an adverse variance to prior year of c. € 15 m following the Air Berlin insolvency, relating to receivables for aircraft and crew leased to Air Berlin in financial year 2017 on which the latter defaulted.

Western Region

€ million	2017	2016	Var. %
Turnover	3,502.2	2,869.9	+22.0
Underlying EBITA	109.2	86.1	+26.8
Underlying EBITA at constant currency	109.3	86.1	+26.9
Direct distribution[1] in %, variance in % points	71	70	+1
Online distribution[2] in %, variance in % points	54	52	+2
Customers in '000	5,642	5,016	+12.5

[1] Share of sales via own channels (retails and online)
[2] Share of online sales

Western Region comprises TUI's sales and marketing operations in Benelux and France. Turnover for the segment increased by 22.0 % in financial year 2017, driven by the acquisition of Transat's French tour operating business at the start of the financial year, as well as higher volumes in Benelux. Direct and online distribution also increased, in part aided by the TUI rebrand in all markets.

- Following the terrorist incident at Brussels Airport in 2016, Benelux delivered a strong trading performance, particularly in the second half. Having completed the TUI rebrand in Netherlands in 2016, the Belgium rebrand was completed in 2017. In addition, the airline operational issues experienced in Netherlands in the first half were dealt with effectively ahead of the Summer, resulting in an improved performance.
- In France, the integration of Transat's operations is on track. Disappointingly, however, the French result overall has not improved compared with prior year, mainly as a result of competitive pressures in late Summer trading. Nonetheless, we anticipate that the synergies from the Transat deal will be delivered in the next few years, in line with our previously announced plans.

Other Tourism

Other Tourism

€ million	2017	2016 restated	Var. %
Turnover	677.0	669.3	+1.2
Underlying EBITA	13.4	7.9	+69.6
Underlying EBITA at constant currency	17.8	7.9	+125.3

Other Tourism includes the turnover and profits of our Destination Services business (which looks after TUI customers in resort), result for the French scheduled airline Corsair, as well as the costs of central functions supporting the Tourism businesses.

- Destination Services' turnover and earnings increased in the year, due to good underlying trading and the final delivery of merger synergies in the year. As the main contact in resort, Destination Services are a key part of holiday experience for our Source Market customers, and continue to improve their service and offering as a result of our IT and CRM initiatives.

All Other Segments

All Other Segments

€ million	2017	2016 restated	Var. %
Turnover	220.8	165.7	+33.3
Underlying EBITA	–49.9	–56.4	+11.5
Underlying EBITA at constant currency	–54.5	–56.4	+3.4

- This segment comprises the business operations for new markets and in particular the central corporate functions and interim holdings of TUI Group and the Group's real estate companies.
- The reduction in cost in the year is driven by the final delivery of corporate streamlining merger synergies.

Net assets

Development of the Group's asset structure

€ million	**30 Sep 2017**	30 Sep 2016	Var. %
Fixed assets	9,067.0	8,345.0	+ 8.7
Non-current receivables	800.6	786.8	+ 1.8
Non-current assets	**9,867.6**	**9,131.8**	**+ 8.1**
Inventories	110.2	105.2	+ 4.8
Current receivables	1,682.0	2,218.2	– 24.2
Cash and cash equivalents	2,516.1	2,072.9	+ 21.4
Assets held for sale	9.6	929.8	– 99.0
Current assets	**4,317.9**	**5,326.1**	**– 18.9**
Assets	**14,185.5**	**14,457.9**	**– 1.9**
Equity	3,533.7	3,248.2	+ 8.8
Liabilities	10,651.8	11,209.7	– 5.0
Equity and liabilities	**14,185.5**	**14,457.9**	**– 1.9**

Structure of the Group's non-current assets

€ million	**30 Sep 2017**	30 Sep 2016	Var. %
Goodwill	2,889.5	2,853.5	+ 1.3
Other intangible assets	548.1	545.8	+ 0.4
Property, plant and equipment	4,253.7	3,714.5	+ 14.5
Companies measured at equity	1,306.2	1,180.8	+ 10.6
Financial assets available for sale	69.5	50.4	+ 37.9
Fixed assets	**9,067.0**	**8,345.0**	**+ 8.7**
Receivables and assets	476.9	442.1	+ 7.9
Deferred tax claims	323.7	344.7	– 6.1
Non-current receivables	**800.6**	**786.8**	**+ 1.8**
Non-current assets	**9,867.6**	**9,131.8**	**+ 8.1**

The Group's balance sheet total decreased by 1.9 % as against 30 September 2016 to € 14.2 bn.

Vertical structural indicators

Non-current assets accounted for 69.6 % of total assets, compared with 63.2 % in the previous year. The capitalisation ratio (ratio of fixed assets to total assets) increased from 57.7 % to 63.9 %.

Current assets accounted for 30.4 % of total assets, compared with 36.8 % in the previous year. The Group's cash and cash equivalents increased by € 443.2 m year-on-year to € 2,516.1 m. They thus accounted for 17.7 % of total assets, as against 14.3 % in the previous year.

Horizontal structural indicators

At the balance sheet date, the ratio of equity to non-current assets was 35.8 %, as against 35.6 % in the previous year. The ratio of equity to fixed assets was 39.0 % (previous year 38.9 %). The ratio of equity plus non-current financial liabilities to fixed assets was 58.4 %, compared with 56.9 % in the previous year.

Development of the Group's non-current assets

GOODWILL

Goodwill rose by € 36.0 m to € 2,889.5 m. The increase in the carrying amount is essentially due to the acquisition of Transat's French tour operating business. An opposite effect was driven by the translation of goodwill not managed in the TUI Group's functional currency into euros. In the period under review, no adjustments were required as a result of impairment tests.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment increased to € 4,253.7 m in the period under review, primarily driven by the acquisition of the cruise ship Marella Discovery 2, investments in hotel facilities, down payments on aircraft orders and the delivery of two aircraft. Property, plant and equipment also comprised leased assets in which Group companies held economic ownership. At the balance sheet date, these finance leases had a carrying amount of € 1,158.1 m, down 5.8 % year-on-year.

Development of property, plant and equipment

€ million	30 Sep 2017	30 Sep 2016	Var. %
Hotels incl. land	1,040.8	978.9	+ 6.3
Other buildings and land	165.1	155.4	+ 6.2
Aircraft	1,207.2	1,202.0	+ 0.4
Cruise ships	860.1	674.3	+ 27.6
Other plant, operating and office quipment	361.2	335.5	+ 7.7
Assets under construction, payments on accounts	619.3	368.4	+ 68.1
Total	**4,253.7**	**3,714.5**	**+ 14.5**

COMPANIES MEASURED AT EQUITY

Thirteen associated companies and 28 joint ventures were measured at equity. At € 1,306.2 m, their value increased by 10.6 % year-on-year as at the balance sheet date.

Structure of the Group's current assets

€ million	30 Sep 2017	30 Sep 2016	Var. %
Inventories	110.2	105.2	+ 4.8
Financial assets available for sale	–	265.8	n. a.
Trade accounts receivable and other assets*	1,583.3	1,864.7	– 15.1
Current tax assets	98.7	87.7	+ 12.5
Current receivables	1,682.0	2,218.2	– 24.2
Cash and cash equivalents	2,516.1	2,072.9	+ 21.4
Assets held for sale	9.6	929.8	– 99.0
Current assets	**4,317.9**	**5,326.1**	**– 18.9**

* Incl. receivables from derivative financial instruments

Development of the Group's current assets

FINANCIAL ASSETS AVAILABLE FOR SALE

As at 30 September 2016, the financial assets available for sale comprised the remaining interests in Hapag-Lloyd AG. In the financial year under review, TUI AG sold its stake in Hapag-Lloyd AG at a purchase price less costs of disposal of € 406.4 m. The resulting profit of € 172.4 m is carried under Financial income.

CURRENT RECEIVABLES

Current receivables comprise trade accounts receivable and other receivables, current income tax assets and claims from derivative financial instruments. At € 1,682.0 m, current receivables decreased by 24.2 % year-on-year.

CASH AND CASH EQUIVALENTS

At € 2,516.1 m, cash and cash equivalents increased by 21.4 % year-on-year.

ASSETS HELD FOR SALE

Assets held for sale decreased by € 920.2 m to € 9.6 m. The decline is primarily attributable to the disposal of Travelopia.

Unrecognised assets

In the course of their business operations, Group companies used assets of which they were not the economic owner according to the IASB rules. Most of these assets were aircraft, hotel complexes or ships for which operating leases, i. e. rental, lease or charter agreements, were concluded under the terms and conditions customary in the sector.

Operating rental, lease and charter contracts

€ million	30 Sep 2017	30 Sep 2016	Var. %
Aircraft	1,461.1	1,886.3	– 22.5
Hotel complexes	728.4	731.9	– 0.5
Travel agencies	217.1	229.1	– 5.2
Administrative buildings	233.8	271.2	– 13.8
Ships, Yachts and motor boats	29.2	204.6	– 85.7
Other	107.8	114.3	– 5.7
Total	**2,777.4**	**3,437.4**	**– 19.2**

Further explanations as well as the structure of the remaining terms of the financial liabilities from operating rental, lease and charter agreements are provided in the section Other financial liabilities in the Notes to the consolidated financial statements.

Information on other intangible, non-recognised assets in terms of brands, customer and supplier relationships and organisational and process benefits is provided in the section on TUI Group Corporate Profile; relationships with investors and capital markets are outlined in the section TUI Share.

→ *TUI Group Corporate Profile see page 20; TUI Share from page 91*

Financial position of the Group

Principles and goals of financial management

PRINCIPLES

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. In the framework of a cross-national division of tasks within the organisation, TUI AG has outsourced some of its financial activities to First Choice Holidays Finance Ltd, a British Group company. However, these financial activities are carried out on a coordinated and centralised basis.

GOALS

TUI's financial management goals include ensuring sufficient liquidity for TUI AG and its subsidiaries and limiting financial risks from fluctuations in currencies, commodity prices and interest rates.

LIQUIDITY SAFEGUARDS

The Group's liquidity safeguards consist of two components:

- In the course of the annual Group planning process, TUI draws up a multi-annual finance budget, from which long-term financing and re-financing requirements are derived. This information and financial market observation to identify refinancing opportunities create a basis for decision-making, enabling appropriate financing instruments for the long-term funding of the Company to be adopted at an early stage.
- TUI uses syndicated credit facilities and bilateral bank loans as well as its liquid funds to secure sufficient short-term cash reserves. Through intra-Group cash pooling, the cash surpluses of individual Group companies are used to finance the cash requirements of other Group companies. 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 from changes in exchange rates, commodity prices and interest rates.

The key operating financial transaction risks relate to the euro, US dollar and pound sterling and changing fuel prices. They mainly result from cost items in foreign currencies held by individual Group companies, e. g. hotel sourcing, aircraft fuel and bunker oil invoices or ship handling costs.

The Group has entered into derivative hedges in various foreign currencies in order to limit its exposure to risks from changes in exchange rates for the hedged items. Changes in commodity prices affect the TUI Group, in particular in procuring fuels such as aircraft fuel and bunker oil. These price risks related to fuel procurement are largely hedged with the aid of derivative instruments. Where price increases can be passed on to customers due to contractual agreements, this is also reflected in our hedging behaviour. In order to control risks related to changes in interest rates arising on liquidity procurement in the international money and capital markets and investments of liquid funds, the Group uses derivative interest hedges on a case-by-case basis as part of its interest management system.

The use of derivative hedges is based on underlying transactions; the derivatives are not used for speculation purposes.

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 Risk Report and the section Financial instruments in the Notes to the consolidated financial statements.

See from page 30 and from page 209

Capital structure

Capital structure of the Group

€ million	30 Sep 2017	30 Sep 2016	Var. %
Non-current assets	9,867.6	9,131.8	+8.1
Current assets	4,317.9	5,326.1	–18.9
Assets	**14,185.5**	**14,457.9**	**–1.9**
Subscribed capital	1,501.6	1,500.7	+0.1
Reserves including net profit available for distribution	1,438.1	1,174.4	+22.5
Non-controlling interest	594.0	573.1	+3.6
Equity	**3,533.7**	**3,248.2**	**+8.8**
Non-current financial liabilities	1,896.1	2,213.3	–14.3
Current provisions	382.6	415.4	–7.9
Provisions	**2,278.7**	**2,628.7**	**–13.3**
Non-current liabilities	1,761.2	1,503.4	+17.1
Current financial liabilities	171.9	537.7	–68.0
Financial liabilities	**1,933.1**	**2,041.1**	**–5.3**
Other non-current financial liabilities	459.8	272.7	+68.6
Other current financial liabilities	5,980.2	5,794.9	+3.2
Other financial liabilities	**6,440.0**	**6,067.6**	**+6.1**
Debt related to assets held for sale	**–**	**472.3**	**n.a.**
Liabilities	**14,185.5**	**14,457.9**	**–1.9**

Capital ratios

€ million		30 Sep 2017	30 Sep 2016	Var. %
Non-current capital		7,650.8	7,237.6	+5.7
Non-current capital in relation to balance sheet total	%	53.9	50.1	+3.8*
Equity ratio	%	24.9	22.5	+2.4*
Equity and non-current financial liabilities		5,294.9	4,751.6	+11.4
Equity and non-current financial liabilities in relation to balance sheet total	%	37.3	32.9	+4.4*
Gearing	%	17.2	41.9	–24.7*

* Percentage points

Overall, non-current capital decreased by 5.7 % to € 7,650.8 m. As a proportion of the balance sheet total, it amounted to 53.9 % (previous year 50.1 %).

The equity ratio was 24.9 % (previous year 22.5 %). Equity and non-current financial liabilities accounted for 37.3 % (previous year 32.9 %) of the balance sheet total at the reporting date.

The gearing, i.e. the ratio of average net debt to average equity, moved to 17.2 %, down from the previous year (41.9 %).

EQUITY

Composition of equity

€ million	30 Sep 2017	30 Sep 2016	Var. %
Subscribed capital	1,501.6	1,500.7	+0.1
Capital reserves	4,195.0	4,192.2	+0.1
Revenue reserves	–2,756.9	–3,017.8	+8.6
Non-controlling interest	594.0	573.1	+3.6
Equity	**3,533.7**	**3,248.2**	**+8.8**

Subscribed capital and the capital reserves rose slightly year-on-year. The increase of 0.1 % each was driven by the issue of employee shares. Revenue reserves rose by € 260.9 m to € –2,756.9 m. Non-controlling interests accounted for € 594.0 m of equity.

PROVISIONS

Provisions mainly comprise provisions for pension obligations 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 € 2,278.7 m, up by € 350.0 m or 13.3 % year-on-year.

FINANCIAL LIABILITIES

Composition of liabilities

€ million	30 Sep 2017	30 Sep 2016	Var. %
Bonds	295.8	306.5	–3.5
Liabilites to banks	381.3	410.8	–7.2
Liabilites from finance leases	1,226.5	1,231.7	–0.4
Other financial liabilities	29.5	92.1	–68.0
Financial liabilities	**1,933.1**	**2,041.1**	**–5.3**

STRUCTURAL CHANGES IN FINANCIAL LIABILITIES

The Group's financial liabilities decreased by a total of € 108.0 m to € 1,933.1 m. There were no significant changes in the structure of liabilities.

OVERVIEW OF TUI'S LISTED BONDS

The tables below list the maturities, nominal volumes and annual interest coupons of listed bonds.

On 26 October 2016, TUI AG issued bonds with a nominal value of € 300.0 m with a 5-year period to maturity. On 18 November 2016, the proceeds from this bond issuance were used to repay the five-year bond issued in September 2014 with a nominal value of € 300.0 m.

Listed bonds

Capital measures	Issuance	Maturity	Amount initial € million	Amount outstanding € million	Interest rate % p.a.
Senior Notes 2016/21	October 2016	October 2021	300.0	300.0	2.125

BANK LOANS AND OTHER LIABILITIES FROM FINANCE LEASES

Apart from the bonds worth € 300.0 m, used for general corporate financing, the Hotels & Resorts and Cruises segments, in particular, took out separate bank loans, primarily in order to finance investments by these companies. Most liabilities from finance lease contracts are attributable to aircraft as well as one cruise ship.

More detailed information, in particular on the remaining terms, is provided under Financial liabilities in the Notes to the consolidated financial statements.

See section on Financial liabilities in the Notes, page 202

OTHER FINANCIAL LIABILITIES

Other liabilities totalled € 6,440.0 m, up by € 372.4 m or 6.1 % year-on-year.

Off-balance sheet financial instruments and key credit facilities

OPERATING LEASES

The development of operating rental, leasing and charter contracts is presented in the section Net assets in the Management Report.

See page 65

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 to the consolidated financial statements. There were no contingent liabilities related to special-purpose vehicles.

SYNDICATED CREDIT FACILITIES OF TUI AG

TUI AG signed a syndicated credit facility worth € 1.75 bn in September 2014. This syndicated credit facility is available for general corporate financing purposes (in particular in the winter months). It carries a floating interest rate which depends on the short-term interest rate level (EURIBOR or LIBOR) and TUI's credit rating plus a margin. The bond was to mature in December 2020, but in the financial year under review, its maturity was extended ahead of the due date to July 2022. At the balance sheet date, an amount of € 115.9 m from this credit facility had been taken up in the form of bank guarantees.

BILATERAL GUARANTEE FACILITIES OF TUI AG WITH INSURANCE COMPANIES AND BANKS

TUI AG has concluded several bilateral guarantee facilities with various insurance companies with a total volume of £ 92.5 m and € 130.0 m. These guarantee facilities are required in the framework of the delivery of tourism services in order to ensure that Group companies are able to meet, in particular, the requirements of European oversight and regulatory authorities on the provision of guarantees and warranties. The guarantees granted usually have a term of 12 to 18 months. They give rise to a commission in the form of a fixed percentage of the maximum guarantee amount. At the balance sheet date, an amount of £ 32.9 m and € 50.0 m from these guarantee facilities had been used.

TUI AG also concluded bilateral guarantee facilities with a total volume of € 45.0 m with banks to provide bank guarantees in the framework of ordinary business operations. Some of the guarantees have a term of several years. The guarantees granted give rise to a commission in the form of a fixed percentage of the maximum guarantee amount. At the balance sheet date, an amount of € 15.5 m from these guarantee facilities had been used.

Commitments from finance leases

The € 300.0 m bond from October 2016 and the credit and guarantee facilities of TUI AG contain a number of obligations.

TUI AG has a duty to comply with certain financial covenants (as defined in the respective contracts) from its syndicated credit facility worth € 1.75 bn and a number of bilateral guarantee lines. These require (a) compliance with an EBITDAR-to-net interest expense ratio measuring TUI 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 TUI Group's relative charge from financial liabilities. The EBITDAR-to-net interest expense ratio must have a coverage multiple of at least 1.5; net debt must not exceed 3.0 times EBITDA. The financial covenants are determined every six months. They restrict, inter alia, TUI's scope for encumbering or selling assets, acquiring other companies or shareholdings, or effecting mergers.

The bond worth € 300.0 m from October 2016 and the credit and guarantee facilities of TUI AG also contain 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 financing schemes for immediate repayment.

Ratings by Standard & Poor's und Moody's

TUI AG ratings

	2012	2013	2014	2015	2016	**2017**	Outlook
Standard & Poor's	B–	B	B+	BB-	BB-	BB	stable
Moody's	B3	B3	B2	Ba3	Ba2	Ba2	stable

In the light of improved metrics and a resilient business profile, Standard & Poor's upgraded the corporate rating from 'BB–' to 'BB' in February 2017.

TUI AG's bonds worth € 300.0 m from October 2016 are assigned a 'BB' rating by Standard & Poor's and a 'Ba2' rating by Moody's. TUI AG's syndicated credit facility worth € 1.75 bn is assigned a 'BB' rating by Standard & Poor's.

Financial stability targets

TUI considers a stable credit rating to be a prerequisite for the further development of the business. In response to the structural improvements resulting from the merger between TUI AG and TUI Travel and the operating performance observed over the past few years and the strengthening of the business model despite a challenging environment, Standard & Poor's lifted their TUI ratings. We are seeking further improvements in the rating so as to ensure better access to the debt capital markets even in difficult macroeconomic situations, apart from achieving better financing terms and conditions. The financial stability ratios we have defined are leverage ratio and coverage ratio, based on the following basic definitions:

Leverage ratio = (gross financial liabilities + discounted value of financial commitments from lease, rental and leasing agreements + pension provisions and similar obligations) / (reported EBITDA + long-term leasing and rental expenses)

Coverage ratio = (reported EBITDA + long-term leasing and rental expenses) / (net interest expense + ⅓ of long-term leasing and rental expenses)

These basic definitions are subject to specific adjustments in order to reflect current circumstances. For the completed financial year, the leverage ratio was 2.5(x), while the coverage ratio was 6.1(x). We aim to achieve a leverage ratio 3.00(x) to 2.25(x) and a coverage ratio 5.75(x) to 6.75(x) for financial year 2018.

Interest and financing environment

In the period under review, short-term interest rates remained at an extremely low level compared with historical rates. In some currency areas, the interest rate was even negative, with corresponding impacts on returns from money market investments but also on reference interest rates for floating-rate debt.

Quoted credit margins (CDS levels) for corporates in the sub-investment trade area remained almost flat year-on-year. On overall weak demand for CDS titles, quotations were on a very low level for TUI AG. Refinancing options were available against the backdrop of the receptive capital market environment, and TUI AG took advantage of this in October 2016 by issuing bonds worth € 300.0 m.

In the period under review, TUI also took advantage of the sound condition of the syndicated credit market in order to extend the maturity of TUI AG's syndicated credit facility worth € 1.75 bn to July 2022 ahead of the due date.

In addition to the bond issue of € 300.0 m refinancings of aircrafts in the completed financial year included one new Boeing B787-9 aircraft by means of finance lease based on a sale-and-lease-back agreement and one used Boeing B737-800 aircraft with a bank loan.

Liquidity analysis

LIQUIDITY RESERVE

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

At the balance sheet date, TUI AG, the parent company of TUI Group, held cash and cash equivalents worth € 1,039.0 m.

RESTRICTIONS OF THE TRANSFER OF LIQUID FUNDS

At the balance sheet date, there were restrictions worth around € 0.3 bn on the transfer of liquid funds within the Group that might significantly impact the Group's liquidity, such as restrictions on capital movements and restrictions due to credit agreements concluded.

CHANGE OF CONTROL

Significant agreements taking effect in the event of a change of control due to a takeover bid are outlined in the chapter on Information required under takeover law.

See chapter Information required under takeover law

Cash flow statement

Summary cash flow statement

€ million	2017	2016
Net cash inflow from operating activities	+1,583.1	+1,034.7
Net cash out-/inflow from investing activities	–687.7	+239.0
Net cash outflow from financing activities	–733.8	–662.1
Change in cash and cash equivalents with cash effects	**+161.6**	**+611.6**

The cash flow statement shows the flow of cash and cash equivalents with cash inflows and outflows presented separately for operating, investing and financing activities. The effects of changes in the group of consolidated companies are eliminated.

NET CASH INFLOW FROM OPERATING ACTIVITIES

In the financial year under review, the cash inflow from operating activities amounted to € 1,583.1 m (previous year € 1,034.7 m). The year-on-year increase was mainly driven by the positive operating performance and improvements in the working capital as well as the one-off payment to pension funds in the UK effected in the prior year.

NET CASH OUTFLOW/INFLOW FROM INVESTING ACTIVITIES

In the financial year under review, the cash outflow from investing activities including the payments received for the sale of Travelopia Group and the remaining shares in Hapag-Lloyd AG totalled € 687.7 m (previous year cash inflow of € 239.0 m). The cash outflow for capital expenditure related to property, plant and equipment and financial investments amounted to € 1,171.6 m. The cash inflow from the sale of the stake in Hapag-Lloyd AG amounted to € 406.4 m. The cash outflow for capital expenditure related to property, plant and equipment and intangible assets and the cash inflow for corresponding sales do not match the additions and disposals shown in the development of fixed assets, as these also include the non-cash investments and disposals.

NET CASH OUTFLOW FROM FINANCING ACTIVITIES

In the period under review, the cash outflow from financing activities increased by € 71.7 m year-on-year to € 733.8 m.

In October 2016, TUI AG recorded a cash inflow worth € 294.9 m from the issue of bonds. Other TUI Group companies took out financial liabilities worth € 34.9 m. In the completed financial year, a cash outflow of € 306.8 m was recorded for the redemption of a bond originally maturing on 1 October 2019, cancelled by TUI AG. Further material cash outflows resulted from the redemption of financing lease obligations (€ 97.8 m) and other financial liabilities (€ 108.8 m) as well as interest payments (74.8 m) and dividend payments to TUI AG shareholders (368.2 m) and minority shareholders (€ 88.6 m).

Change in cash and cash equivalents

€ million	2017	2016
Cash and cash equivalents at the beginning of period	**+2,403.6**	**+1,682.2**
Changes due to changes in exchange rates	–49.1	+105.8
Change in cash and cash equivalents due to changes in the group of consolidated companies	–	+4.0
Cash changes	+161.6	+611.6
Cash and cash equivalents at the end of period	**+2,516.1**	**+2,403.6**

Cash and cash equivalents comprise all liquid funds, i.e. cash in hand, bank balances and cheques.

The detailed cash flow statement and additional explanations are provided in the consolidated financial statements and in the section Notes to the cash flow statement in the Notes to the consolidated financial statements.

See page 140 and 223

Analysis of investments

The development of fixed assets, including property, plant and equipment, intangible assets and shareholdings and other investments is presented in the section on Net assets in the Management Report. Additional explanatory information is provided in the Notes to the consolidated financial statements.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

The table below lists the cash investments in intangible assets and property, plant and equipment. This indicator does not include financing processes such as the taking out of loans and finance leases.

Net capex and investments

€ million	2017	2016	Var. %
Cash gross capex			
Hotels & Resorts	223.0	262.3	– 15.0
Cruises	281.4	45.6	+ 517.1
Source Markets	111.8	93.7	+ 19.3
Northern Region	58.5	51.5	+ 13.6
Central Region	22.3	20.6	+ 8.3
Western Region	31.0	21.6	+ 43.5
Other Tourism	115.2	101.0	+ 14.1
Tourism	**731.4**	**502.6**	**+ 45.5**
All other segments	41.2	20.8	+ 98.1
TUI Group	**772.6**	**523.4**	**+ 47.6**
Discontinued operations	28.6	82.2	– 65.2
Total	**801.2**	**605.6**	**+ 32.3**
Net pre delivery payments on aircraft	202.5	48.7	+ 315.8
Financial investments	122.6	75.7	+ 62.0
Divestments (without proceeds from Hotelbeds sale)	– 54.4	– 95.2	+ 42.9
Net capex and investments	**1,071.9**	**634.8**	**+ 68.9**

Investments in other intangible assets and property, plant and equipment totalled € 801.2 m in the period under review, up 32.3 % year-on-year.

In the period under review, investments mainly related to the acquisition and renovation of Marella Discovery 2, the construction of hotels, in particular in the Caribbean, Mexico and the Mediterranean, the launch and harmonisation of IT platforms and down payments on ordered aircraft. Investments were also effected for renovation and maintenance in all areas.

The table below shows a reconciliation of investments to additions to TUI Group's other intangible assets and property, plant and equipment.

Reconciliation of capital expenditure

€ million	2017	2016
Capital expenditure	**801.2**	**605.6**
Debt financed investments	136.0	315.5
Finance lease	247.8	91.8
Additions to the group of consolidated companies	– 28.6	– 20.6
Additions to discontinued operations	3.5	–
Additions to other intangible assets and property, plant and equipment	**1,159.9**	**992.3**

Amortisation (+) / write-backs (–) of other intangible assets and depreciation (+) / write-backs (–) of property, plant and equipment and current assets

€ million	2017	2016	Var. %
Hotels & Resorts	130.8	95.0	+ 37.7
Cruises	57.3	45.9	+ 24.8
Source Markets	111.9	115.7	– 3.3
Northern Region	69.0	67.6	+ 2.1
Central Region	20.3	22.3	– 9.0
Western Region	22.6	25.8	– 12.4
Other Tourism	86.6	61.1	+ 41.7
Tourism	**386.6**	**317.7**	**+ 21.7**
All other segments	77.8	89.3	– 12.9
TUI Group	**464.4**	**407.0**	**+ 14.1**
Discontinued operations	–	70.9	n. a.
Total	**464.4**	**477.9**	**– 2.8**

Investment obligations

ORDER COMMITMENTS

Due to agreements concluded in financial year 2017 or in prior years, order commitments for investments totalled € 4,164.5 m; this total includes an amount of € 733.0 m for scheduled deliveries in financial year 2018.

At the balance sheet date, order commitments for aircraft comprised 74 planes (four B787s and 70 B737s), to be delivered by the end of financial year 2023. Delivery of seven aircraft (five B737 Max and two B787-9s) has been scheduled for financial year 2018.

More detailed information is provided in the section Other financial liabilities in the Notes to the consolidated financial statements.

NON-FINANCIAL GROUP DECLARATION

pursuant to the CSR Directive Implementation Act

For TUI Group, economic, environmental and social sustainability is a fundamental management principle and a cornerstone of our strategy for continually enhancing the value of our Company. This is the way we create the conditions for long-term economic success and assume responsibility for sustainable development in the tourism sector.

In the following section we report on sustainability issues which support better understanding of our business's operations, context and future development, in line with recent CSR reporting legislation. In compliance with Section 315b, paragraph 1, clause 3 German Commercial Code (HGB) we also refer to relevant aspects of non-financial disclosure found in other parts of the Group management report.

In particular, we report on our risk management system and principles risks linked with our business activities, business relations and services in our Risk Report from page 30 on.

This non-financial Group statement has been reviewed by the Supervisory Board with regard to aspects of legality, regularity and relevance.

Our reporting covers the United Nations Global Compact principles and we have also started to review our activities against the United Nations Sustainable Development Goals (SDGs). The goals are a helpful 'big picture' way to view our impact and the contributions we make to a better world.

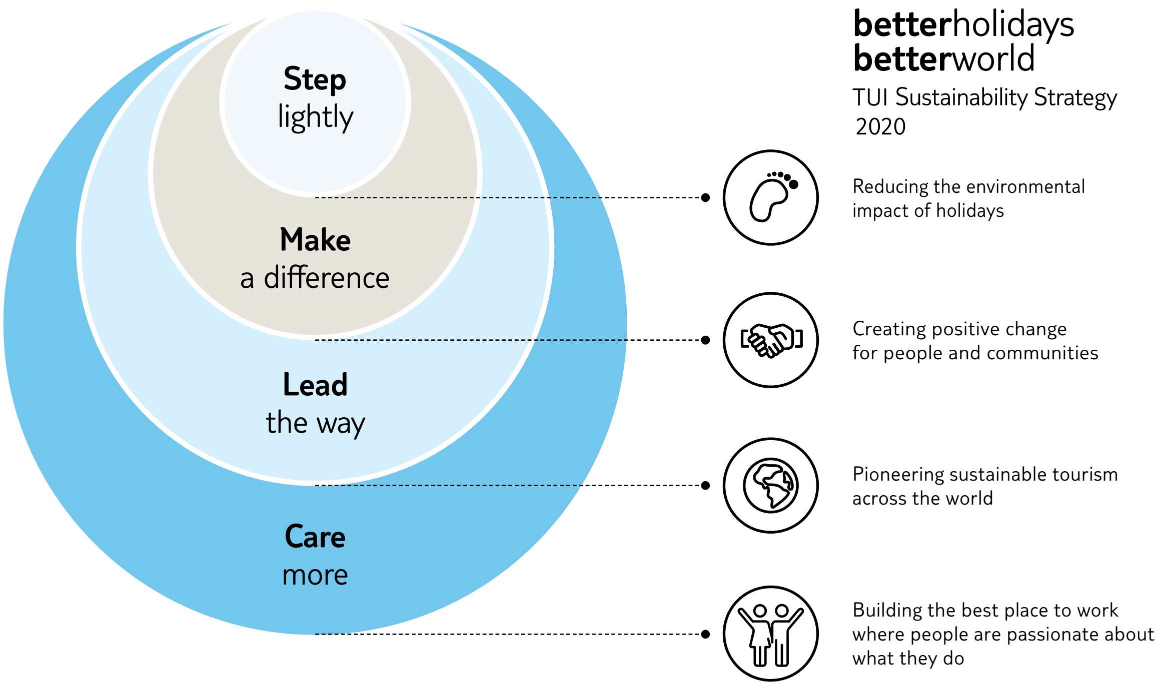
⊕ *Sustainability reporting methodology document:*
www.tuigroup.com/en-en/sustainability/reporting-downloads

Business model

TUI Group's business model as defined in HGB section 289b is outlined from page 20 in this report.

Sustainability strategy and implementation

TUI Sustainability Strategy 2020



Our 'Better Holidays, Better World' 2015 – 2020 strategy is built around the following core pillars:

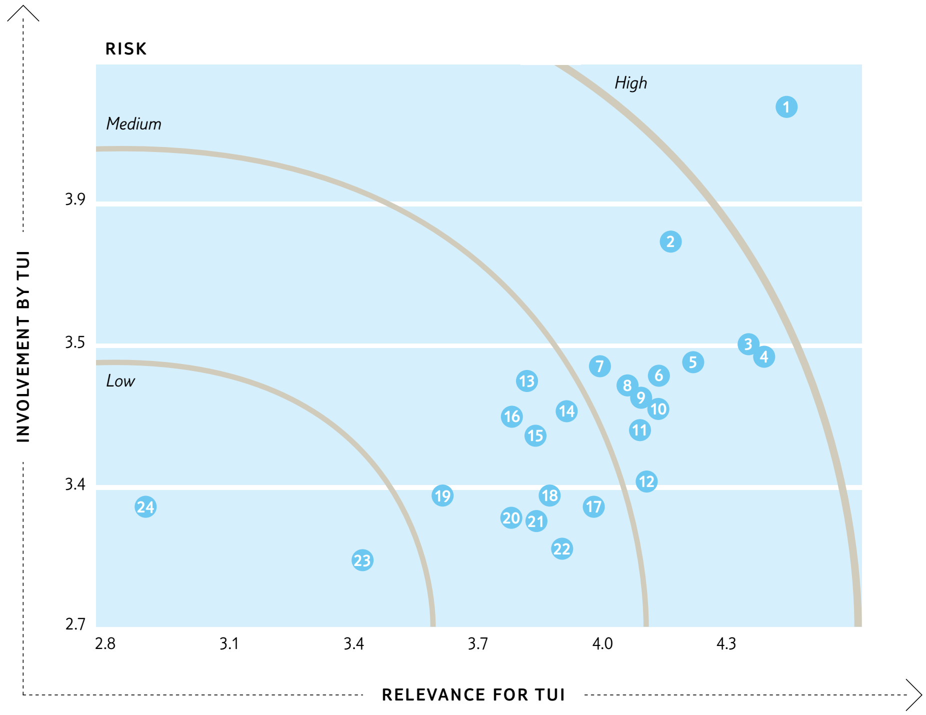
- **Step Lightly,** where we commit to operate the most carbon-efficient airlines in Europe and cut the carbon intensity of our operations by 10 % by 2020.
- **Make a Difference,** where we commit to deliver 10 million 'greener and fairer'* holidays per year by 2020, enabling more local people to share in the benefits of tourism.
- **Lead the Way,** where we commit to invest € 10 m per year by 2020, to support good causes and enhance the positive impacts of tourism, using the TUI Care Foundation to support this work.
- **Care More,** where we commit to achieve a colleague engagement score of over 80.

* Measured by the number of customers we take to hotels with credible sustainability certification – defined as those recognised or approved by the Global Sustainable Tourism Council (GSTC).

MATERIALITY

TUI Group carried out a formal materiality assessment as part of developing the Better Holidays, Better World 2015 – 2020 strategy. Using qualitative and quantitative methods, the business invited feedback from a wide range of stakeholders on the issues shown in the matrix below. In addition to detailed interviews with top-tier stakeholders, the process included a shorter feedback mechanism asking participants from five European markets to prioritise from a list of 24 material issues.

Stakeholder Survey

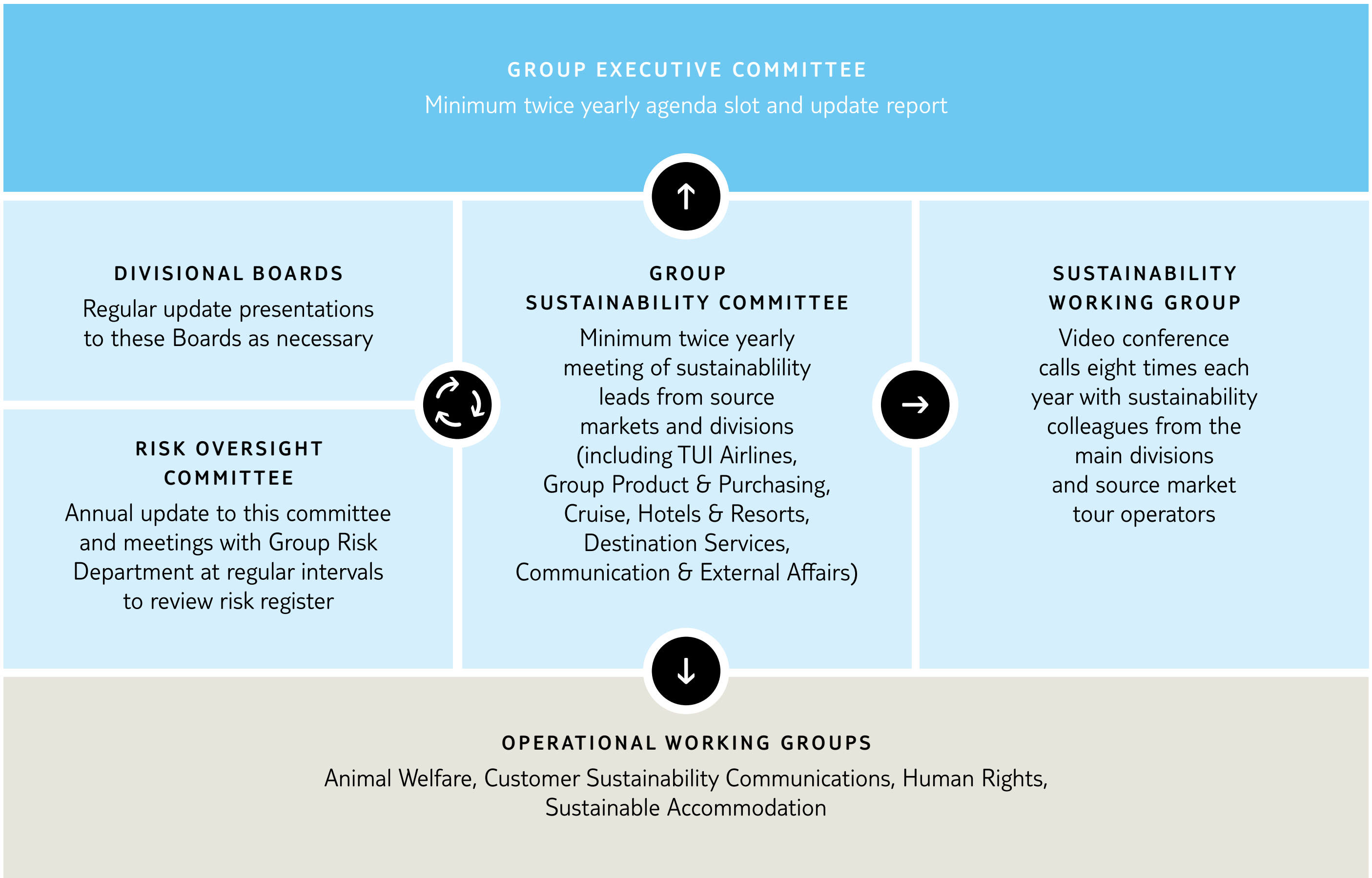


1 *Safety & Crisis Management*
2 *Compliance*
3 *Social Responsibility for Employees*
4 *Child Protection*
5 *Climate Change*
6 *Guest Awareness*
7 *Waste*
8 *Water*
9 *Development of Sustainable Products*
10 *Engagement in Destinations*
11 *Corporate Governance*
12 *Human Rights*
13 *Biodiversity*
14 *Energy*
15 *Sewage Treatment*
16 *Stakeholder Management*
17 *Landscape*
18 *Supply Chain*
19 *Diversity*
20 *Demographic Development*
21 *Innovation Management*
22 *Staff Development*
23 *Support of Education System*
24 *Fostering Art & Culture*

MANAGING SUSTAINABILITY

TUI Group has an experienced team of sustainability professionals, working in close collaboration with senior management at Group and at divisional level to help ensure that TUI's business and sustainability strategies are aligned. Our sustainability colleagues' role is to drive uptake of more sustainable business practices across the TUI Group and along its supply chain, and to advise the TUI Care Foundation on destination project proposals and implementation.

Managing sustainability-embedding



SUSTAINABILITY INDICES

TUI AG is represented in the sustainability indexes FTSE4Good, STOXX Global ESG Leaders Index and on the Ethibel Investment Register. In 2017 TUI was included in the RobecoSam Sustainability Yearbook with a 'Gold Class' distinction. TUI AG has been recognised as a Leader by CDP Climate Change for implementing current best practices on climate change issues.

The environment

Respecting the environment in our products, services and processes is an essential feature of our quality standards. We place priority on climate protection and resource efficiency. Conserving natural resources and mitigating negative environmental impacts is not only of interest to our business but also to the future success of travel and tourism.

We face additional environmental challenges at a local level. Fresh water, for example, is likely to become increasingly scarce in the coming years in some destinations – and the waste generated by tourism needs to be managed to ensure it does not create a problem for destinations.

As a company with a substantial carbon footprint – a total of 7,556,457 tonnes of carbon dioxide in 2017 – we acknowledge the necessity to transition to a lower carbon economy and we will continue to strive to reduce the carbon intensity of our operations. In the long term, combating climate change will be critical for our industry as a whole. We need to continue to sell quality holiday experiences, which rely on beautiful and biodiverse destinations, thriving communities and stable weather systems. All of these are threatened by climate change.

Carbon dioxide emissions (CO_2)

tons	2017	2016	Var. %
Airlines & Aviation	6,115,492	5,842,427	+ 4.7
Hotels	507,230	510,719	– 0.7
Cruises	815,582	686,791	+ 18.8
Major Premises / Shops	29,511	32,617	– 9.5
Ground Transport	15,388	17,751	– 13.3
Scope 3 (Other)	73,254	71,713	+ 2.1
Group	**7,556,457**	**7,162,018**	**+ 5.5**

In financial year 2017, TUI Group's total emissions increased year-on-year in absolute terms, primarily due to growth in its airline and aviation segment. The increase in absolute carbon emissions in Cruises of 18.8 % is mainly driven by launching additional vessels – Mein Schiff 6 (operated by TUI Cruises) and Marella Discovery 2 (operated by Marella Cruises, former Thomson Cruises). Furthermore the vessels Mein Schiff 5 and Marella Discovery were included for the full financial year.

Emissions from offices and retail shops declined, due energy efficiencies, restructuring and divestment. Ground transport emissions declined significantly, driven by more efficient energy use and divestment in the specialist businesses.

Energy usage by business area

MWh	2017
Airlines & Aviation	24,940,489
Hotels	1,420,438
Cruises	3,077,062
Major premises / shops	91,422
Ground transport	61,697
Total	**29,591,108**

To expand the scope of TUI's environmental reporting we have included a breakdown of energy usage by business area. Airlines and Aviation represents more than 84 % of the total energy used.

Our carbon management programme covers aviation, hotels, cruise, offices, retail shops and ground transport emissions.

- Our headline goal: We will operate Europe's most carbon-efficient airlines and reduce the carbon intensity of our operations by 10 % by 2020.

CLIMATE PROTECTION AND RESOURCE EFFICIENCY BY TUI AIRLINES

We already operate one of Europe's most carbon-efficient airlines and we aim to continuously improve. In the atmosfair Airline Index 2017 TUI Airways (former Thomson Airways) and TUIfly Germany ranked #1 and #2 most efficient charter airlines.

TUI Airlines have numerous measures in place to further enhance carbon efficiency. Apart from the continuous renewal of our aircraft fleet, we have implemented the following measures to support our efficiency goals:

- Process optimisation, e. g. single-engine taxing in and out, acceleration altitude reduction and wind uplinks
- Weight reduction, e. g. introduction of carbon brakes and water uplift optimisation
- Flight planning optimisation, e. g. Alternate Distance Optimisation and Minimum Fuel Optimisation
- Implementation of fuel management system to improve fuel analysis, identify further opportunities and track savings

TUI's airlines play a pioneering role in introducing environmental management systems based on the internationally recognised ISO 14001 standard. In the period under review, each of our five tour operator airlines and hence 95 % of our aircraft achieved ISO 14001 certification.

TUI Aviation Environment & Fuel Team is responsible for an alignment of the fuel and environment practices and activities, integrating them into a single TUI Airlines operating policy, procedures and performance tools. The team drives best practice in fuel and environment management, providing end-to-end delivery of initiatives and projects in order to deliver the TUI Group sustainability objectives.

TUI Airlines – Fuel consumption and CO_2 emissions

		2017	2016	Var. %
Specific fuel consumption	l/100 rpk*	2.65	2.65	–0.1
Carbon dioxide (CO_2) – total	t	5,571,719	5,277,065	+5.6
Carbon dioxide (CO_2) – specific	kg/100 rpk*	6.67	6.68	–0.1

* rpk=revenue passenger kilometer

TUI Airlines – Carbon intensity

		2017	2016	Var. %	g CO_2e/rpk*
TUI Airline fleet	**g CO_2/rpk***	**66.7**	**66.8**	**–0.1**	**67.4**
Corsair International	g CO_2/rpk*	84.3	82.4	+2.3	85.1
TUI Airways	g CO_2/rpk*	63.4	63.8	–0.6	64.0
TUIfly Belgium	g CO_2/rpk*	71.5	71.4	+0.1	72.2
TUIfly Germany	g CO_2/rpk*	63.5	64.4	–1.4	64.1
TUIfly Netherlands	g CO_2/rpk*	65.2	64.1	+1.7	65.9
TUIfly Nordic	g CO_2/rpk*	61.3	61.4	–0.2	62.0

* rpk=revenue passenger kilometer
We have requested PwC Netherlands to provide assurance on the carbon intensity metrics displayed in the table 'TUI Airlines – Carbon Intensity' above. To read our airline carbon data methodology document and PwC's Assurance report in full, please visit www.tuigroup.com/en-en/sustainability/reporting-downloads

Relative carbon emissions across our airlines decreased by 0.1 % in the financial year 2017. As a scheduled longhaul operator Corsair International's payload consists of both passengers and cargo. Cargo transportation results in higher fuel burn and carbon emissions as is reflected in Corsair's carbon intensity performance.

To enhance the information content, specific emissions are also shown in the form of CO_2 equivalents (CO_2e). Apart from carbon dioxide (CO_2), they include the other five greenhouse gases impacting the climate as listed in the Kyoto Protocol: methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and Sulphur hexafluoride (SF_6).

CLIMATE PROTECTION AND RESOURCE MANAGEMENT IN CRUISES

In 2017, TUI Cruises launched Mein Schiff 6. The newbuild ships in the fleet save fuel through a combination of the latest technologies. A smart energy management system, efficient air conditioning, innovative lighting controls and the use of waste heat from the engines all contribute to a significantly reduced carbon footprint.

⊕ *TUI Cruises Environment Report:*
www.tuicruises.com/nachhaltigkeit/umweltbericht/

Sulphur emissions from the newbuilds in the fleet are also up to 99 % lower thanks to new systems that treat exhaust fumes before releasing them. Moreover, the average sulphur content of fuel was considerably reduced year-on-year. In the period under review, it stood at 1.25 %.

The ships are fitted with advanced emission purification systems, which operate around the clock worldwide – not only in the designated special emission control areas of the North and Baltic Seas, the English Channel and North America but also in the other areas that TUI Cruises travels to, such as the Mediterranean, Orient, Caribbean and Central America.

In financial year 2017, TUI Cruises focussed on the issue of food waste through the launch of a project supported by the industry initiative Futouris entitled 'Reduction of food waste on cruise ships'. The aim of the pilot project is to make efforts to tackle the amount of food waste within the cruise industry. During the project the causes of food waste on board the TUI Cruises fleet will be identified and processes relevant for reducing food waste will be optimised.

Hapag-Lloyd Cruises continues to equip its vessels with new zodiacs. These motor-driven rubber boats are equipped with Torqueedo electric motors in order to reduce air and noise emissions. Hapag-Lloyd Cruises is the first provider of expedition cruises to use this environmentally friendly technology. All Hapag-Lloyd Cruises ships have Tributyltin-free underwater coatings, seawater desalination systems for water treatment purposes as well as a biological sewage treatment system for wastewater. Waste is separated on board in an environmentally-friendly manner prior to disposal on land by specialized companies in accordance with international regulations (MARPOL).

Marella Cruises (former Thomson Cruises) has introduced a range of more efficient procedures and technology including single engine running, or drifting on passage, where speeds allow; so that the engines can run at their most efficient speed and installing new equipment on board, from the laundry to air conditioning plant – cutting the demand for energy produced by the ship. In the financial year 2017 the vessel Marella Dream retrofitted digital engine lubricating oil control units which lead to a decrease of 20 % lubricating oil consumption.

Cruises – carbon intensity

	2017	2016	Var. %
kg CO_2 / Cruise passenger night	108.0	109.6	–1.5

In financial year 2017, relative carbon emissions in Cruises decreased by 1.5 % mainly driven by the on-going re-fleeting programme, more efficient energy use and technological improvements.

To expand the scope of TUI's environmental reporting in Cruises we included waste and water KPIs for the period under review. Per Cruise passenger night 14.7 litres of waste were measured and 161.8 litres of fresh water consumed.

CLIMATE PROTECTION AND RESOURCE MANAGEMENT BY HOTELS

Together with our hotel partners we constantly work on improving our sustainability performance. We have found that our most sustainably-managed hotels deliver higher quality and customer satisfaction.

We have included a sustainability clause in contracts with our accommodation suppliers outlining minimum expectations and the requirement to work towards credible sustainability certification recognised by the Global Sustainable Tourism Council (GSTC). TUI is supporting its hotel partners by providing guidance and testing online tools to enable our hotel partners to prepare for certifications.

TUI hotels were involved in numerous sustainability projects and initiatives in 2017 including the following:

In March 2017 the 'Il Castelfalfi – TUI Blue Selection' was opened in Tuscany – regenerating the historic Tuscan estate of Castelfalfi keeping as much of the original architecture as possible while introducing modern systems and technologies. The resort has installed a biomass plant, which will consume about 3.5 tonnes of biomass each year from the hotel and its grounds and is expected to reduce fuel requirements by 95 %, making the resort practically self-sufficient with only a small reserve of fuel kept for emergencies.

TUI's Product & Purchasing team carried out a full review of two reconstructed and refurbished units in Croatia. The aim was to understand how environmental and social sustainability considerations can be incorporated during planning, design, build and launch phases of refurbishment and newbuild projects as well as ongoing operations. The work identified best practices to share with other accommodation partners and highlighted areas for improvement in all future new-build or refurbishment projects.

Hotels – carbon intensity

	2017	2016	Var. %
kg CO_2 / guest night	9.4	10.1	– 6.3

Relative carbon emissions across our TUI Hotels & Resorts and International Concepts decreased by 6.3 % due to a focus on effciency measures.

Effective waste management aims to conserve resources and reduce environmental impacts and costs through recycling practices. Our owned and partner hotels implement various measures to reduce waste, for example through a stronger focus on local procurement and reducing packaging via buying in bulk. Per guest night 2.3 kg of waste were measured in financial year 2017.

Hotels – relative water consumption*

	2017	2016	Var. %
l / guest night	531	544	– 2.3

* Includes water for domestic, pool and irrigation purposes

Water is one of the most precious resources in the world. Beyond measures to control usage, hotels are finding innovative ways to address fresh water supply problems. For instance, desalination projects can make a big impact in destinations where they are in operation.

Social issues and destination collaboration

Tourism can be a real force for good, generating the transfer of wealth, promoting cultural understanding and tolerance. But we know that travel and tourism can also have unintended negative consequences.

We rely on thriving communities to welcome our customers in destinations. That means it's important that the benefits of tourism reach the local community, in the form of jobs and educational opportunities and human rights are protected along our value chain.

- Our headline goal: We will deliver 10 m 'greener and fairer' holidays a year by 2020, enabling more local people to share in the benefits of tourism

One of our key areas of focus is the hotel – the largest component of the holiday experience. Our expectation of hotels that work with us is that they will commit to social and environmental good practice.

Certification is central to our commitment to offer 'greener and fairer' holidays. It is a credible way of showing whether our hotels go further than others when it comes to social and environmental issues. We encourage our hotels to aim for certification that is GSTC (Global Sustainable Tourism Council) recognised and we are strong supporters of the certification programme Travelife.

TUI Collection is a set of exclusive excursions that have been developed by TUI and tailored to give customers a true taste of the destination. They were launched in 2014 and are now offered by the majority of our tour operators. Each excursion in the Collection must be exclusive to TUI and meet specific criteria for sustainability, showing that it is bringing benefit to local people and minimising its impact on the environment. Our customers went on 1,024,000 TUI Collection excursions in financial year 2017, up 21 % on 2016.

Greener and fairer holidays

	2017	2016	Var. %
Number of customer (millions) staying at accommodations certified to GSTC-recognised standard	8.3	6.3	+ 31.1
Number of hotels certified to GSTC-recognised standard	1,220	1,170	+ 4.3
% of hotels certified to GSTC-recognised standard (TUI Hotels)	76	74	+ 2*
Number of TUI Collection excursions	1,024,000	846,000	+ 21.07

* Variance is given in percentage points

In financial year 2017, the number of customers staying in a hotel which is certified according to a GSTC recognised standard increased by 31.1 % to 8.3 Mio. This increase reflects improved and adjusted reporting processes, including the consolidation of Riu's customer numbers from non-TUI tourism businesses, as well as the increase in the number of accommodation suppliers who achieved certification to GSTC-recognised standards, by 4.3 % to 1,220 hotels.

DIALOGUE

Stakeholders in destinations have a significant role to play in sustainable tourism management. We work closely with communities, local and national governments, non-governmental organisations and trade associations to support the sustainable management of destinations.

TUI CARE FOUNDATION

We are involved in projects all around the world that support communities and reduce negative environmental impacts. Where we can, we focus on those destinations where we send the most customers and where we believe we can make the greatest difference.

- Our headline goal: We will invest € 10 m per year by 2020, to support good causes and enhance the positive impacts of tourism, using the TUI Care Foundation to support this work

→ *Read more about TUI Care Foundation in the Magazine, page 54 / 55 and on www.tuicarefoundation.com*

Within the financial year 2017 the independent TUI Care Foundation has evolved its broader commitments and collaborated with destinations in three specific areas: education and training initiatives for young people; protection of the natural environment; and sustainable livelihoods in thriving destinations where local communities can benefit from tourism.

MULTI-STAKEHOLDER DESTINATION PROJECTS

During the last year, TUI Care Foundation through its implementation partners has engaged with several community programmes in holiday destinations such as Croatia and Cape Verde.

Tourism in Croatia is growing rapidly and accounts for more than one-fifth of annual GDP. To support the sustainable growth of tourism in Croatia, TUI became part of a local stakeholder project that brought together the Travel Foundation (a TUI Care Foundation partner), local residents and industry partners in the Split-Dalmatia county, where two refurbished four-star hotels have opened for Western European tourists. To address local stakeholder concerns about the impact of redevelopment, a training programme was run to help 20 local businesses benefit from the opportunity (of which the majority have made changes to their products to meet hotel customer expectations). TUI colleagues participated in this project and further opportunities to align the hotels with local community needs are being explored.

In Cape Verde, tourism is extremely important to the economy, employing 38 % of the working population and accounting for 40 % of GDP. With rapid growth, however, comes a challenge to protect the environment, ensure that local businesses and communities can benefit from tourism and help local entrepreneurs and craftspeople to offer authentic excursions and handicrafts to the influx of new guests. A Destination Council was set up in 2013 by the Travel Foundation with the support of TUI, to allow organisations to work together to better manage tourism's impacts. TUI Care Foundation is now supporting specific projects relating to water, waste, clean beaches and local crafts.

EMPOWERING YOUTH IN MOROCCO

To generate future opportunities for young Moroccans and promote a green way of mobility, TUI Care Foundation and Dutch NGO Pikala joined forces in 2017. Pikala are working to train 90 young Moroccans to become bike tour guides in their home city, to gain in-depth knowledge of bike mechanics and learn the basics of how to run their own bike tour business eventually. During the project 36 of the participants will be employed and a special focus will be put on including young women in the program.

Investments into projects and good causes

€ million	2017	2016	Var. %
Amount raised for sustainability projects/good causes	7.3	6.6	+10.0

The amount raised for sustainability projects and good causes reached €7.3 million in financial year 2017, an increase by 10.0 %. This increase is largely due to the consolidation of Riu's charitable contributions into our reported figures in financial year 2017.

Human Rights

TUI Group respects all internationally proclaimed human rights as specified in the International Bill of Human Rights and expects the same of our suppliers and business partners. Modern slavery and its components of forced labour and human trafficking are of particular concern given their egregious nature and increasing prevalence.

⊕ *Modern Slavery Act Statement on http://www.tuigroup.com/en-en/sustainability/msa*

In accordance with applicable law, conventions and regulation TUI is committed to respecting human rights throughout its worldwide operations. We have a number of policies and initiatives in place to monitor, identify, mitigate and prevent human rights impacts in line with the UN Guiding Principles on Business and Human Rights, and will take remedial action where necessary.

In September 2014, TUI signed up to the UN Global Compact, committing the Group to 10 universally accepted principles in the areas of human rights, labour, environment and anticorruption. In 2012, TUI signed the UN World Tourism Organisation's (UNWTO) Global Code of Ethics– further underlining our commitment to respecting human rights.

We have established a working group on human rights, drawing on senior management from major departments across our business to help with the continuous process of analysing potential human rights risks. In April 2017 TUI Group published the 'Modern Slavery Act Statement', under the requirement of UK law.

CODES OF CONDUCT AND SUPPLY CHAIN

The employee Code of Conduct commits us to respect and observe human rights. TUI Group employees are also encouraged to report any wrongdoing to the 'Speak Up' Line. All employees wherever they are in the world have access to a confidential reporting channel which allows them to report concerns about illegal or unethical behaviour directly to a group function free from reprisal. Employees are specifically encouraged to report concerns about, among other things, potential human rights issues. Group Legal Compliance closely monitors the hotline and ensures ongoing employee awareness through e-mails, newsletter updates, websites, e-learning and posters in prominent areas.

Our Supplier Code of Conduct sets out the minimum standards that we expect from suppliers and their employees, sub-contractors, agents and subsidiaries when working on our behalf. Among other things the code includes guidance on human rights and labour laws, bribery and corruption, environmental impacts and support for local communities. TUI was the first major player in the Travel and Tourism sector to introduce supplier codes of conduct in order to mandate standards and stipulate requirements of third party business partners, ensuring their alignment to TUI's expectations for responsible and ethical business practices.

The TUI Supplier Code of Conduct prohibits the use of forced and involuntary labour and requires that suppliers do not:

- employ anyone against their will;
- traffic in persons or use any form of slave, forced or bonded labour;
- require workers to surrender any government-issued identification, passports, or work permits as a condition of employment; or
- require workers to undergo excessive indebted labour: that is, where workers are required to pay a fee in connection with obtaining employment, expenses associated with recruitment, processing, or placement of both direct and contract workers, Suppliers shall be responsible for payment of fees and expenses in excess of an affordable portion of a worker's salary (a guide being one month of the worker's anticipated net wages).

The Code also provides detail on the following areas; general rights of workers, child labour, child protection from sexual exploitation, trafficking, anti-discrimination, working times and remuneration.

The TUI tour operating businesses have incorporated environmental and social requirements into contracts for our biggest supplier group – accommodation partners – Sustainability Requirements for Accommodation Suppliers. We have reviewed these requirements to make sure that they adequately cover human rights, in particular forced labour and human trafficking. These requirements are also outlined in our agreements with contracted Destination Management Companies. We are currently in the process of adapting these requirements for other areas of our procurement.

We also require our hotel suppliers to implement credible sustainability 3rd party certifications recognised or approved by the Global Sustainable Tourism Council (GSTC). Schemes approved and / or recognised by GSTC mandate the highest standards of human rights, child protection and social welfare in the tourism industry.

Travelife is the certification body we work most closely with and we were involved in developing new, stricter criteria. One of the revisions has been the inclusion of the principles of the Ethical Trading Base Code to strengthen the human rights components of the audit process, including modern slavery aspects.

For more information on certified hotels see page 79

CHILD PROTECTION TRAINING

We conduct regular child protection training for colleagues working for TUI Destination Services to ensure they understand child protection and how to react and proceed when an incident occurs. We are in the process of training specific groups of colleagues about human rights and modern slavery, such as holiday representatives and purchasers working in high risk destinations.

Child protection training

	2017
Colleagues trained on child protection issues	2,585

All TUI Airways (former Thomson Airways) crew receive Vulnerable Children & Trafficking Training during their inductions, where they learn about how to spot trafficking and what to do. Other TUI airlines are planning to roll out similar trainings.

Our employees

Qualified and engaged employees are a major prerequisite for TUI's long-term success. One of the key elements of our global HR strategy, therefore, is to attract and promote people with talent and to retain them by offering attractive employment conditions.

It is our staff who breathe life into our corporate values 'Trusted', 'Unique' and 'Inspiring'. Alongside our vision and our customer promise, they form the basis for our attitudes and actions. In the completed financial year, we implemented a number of measures to embed our corporate values further in our day-to-day activities.

Starting in the completed financial year, HR has been a fixed component and strategic pillar of TUI Group's sustainability strategy. Under the heading 'Better Holidays, Better World', TUI's sustainability efforts comprise four major ambitions: Beside 'step lightly', 'make a difference' and 'lead the way' now 'care more' is included.

Our strategic key areas in HR were already defined last year. In the period under review, TUI continued to work consistently towards implementing them. 15 strategic projects were initiated within the five key areas (Engagement, Leadership, People Development, Organisational Effectiveness and HR Function Development), including oneShare, Employer Branding, Diversity@TUI, TUIgether and Global 60. So that we can measure the progress and success of these projects going forward, we defined corresponding KPIs in the financial year and are currently working on a reporting process. The goal is to report the current status and longterm objectives of the projects to the Management and Supervisory Board as well as to formulate appropriate measures.

HR STRATEGY PROJECTS

ONESHARE

oneShare offers employees in 18 European countries the opportunity to subscribe to shares from a joint employee share programme, and this option will be rolled out globally in the long term. This far, there have been two separate stock programmes in the UK and Germany. In the wake of the launch, TUI offered its employees the opportunity to participate in the success of the company twice in the reporting period. Overall, the rate of participation was 12.7 %, significantly exceeding our expectation in the year the programme began. This shows that our employees are placing their trust in TUI's long-term future.

EMPLOYER BRANDING

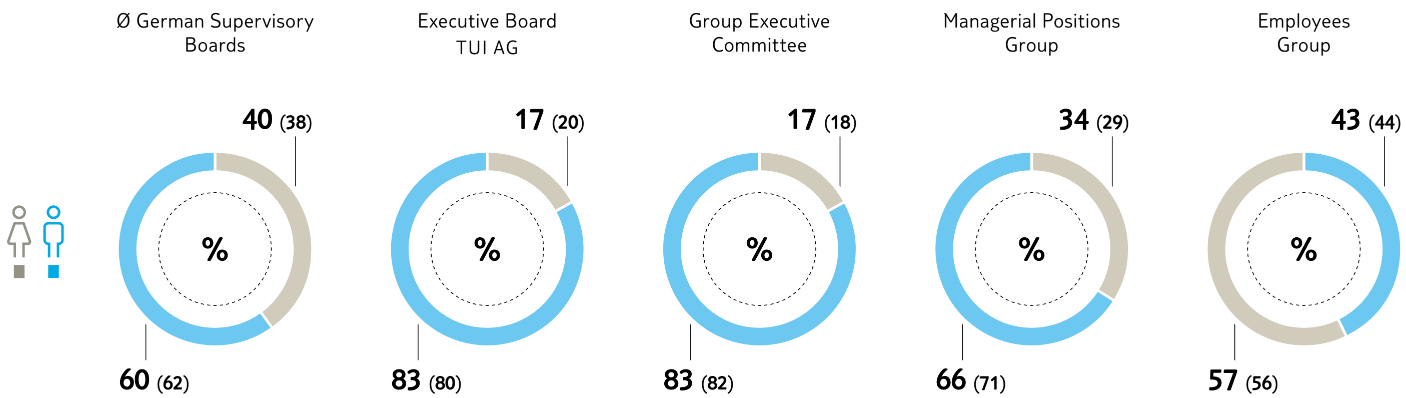
One of the projects developed as part of our HR strategy during the recent financial year was a new Employer Branding campaign. It will successively be rolled out in a total of 14 markets. Germany was the first source market to fully implement the campaign in summer 2017. TUI Group uses illustrations describing the future of travel for a uniform employer brand. The redesigned branding presents TUI Group as an ideal employer for anyone who wants to help shape the future of travel. The motto of the new branding: 'Our employees make us number one'. A special focus in the redesigned branding was placed on digitalisation. All the channels through which future job applicants can find out about TUI Group vacancies have been revamped. Apart from conventional advertisements in newspapers and magazines, they now include posters, social ads on Xing, LinkedIn, or Facebook.

DIVERSITY@TUI

One of the cornerstones of our Diversity activities is to increase the proportion of women in managerial functions. Group wide, the proportion of women in the overall headcount was almost flat year-on-year at 56.6 % on the balance sheet date. By contrast, women's share of managerial functions grew from 29.4 % to 34.1 %.

The proportion of women on our German supervisory bodies also continued to rise in the period under review. On 30 September 2017, women accounted overall for almost 40 % of members, up by around 2 percentage points year-on-year.

Proportion of Women



In brackets: previous year

In Germany, advantage was taken of the self-commitment mechanism provided for under the German Stock Corporation Act (AktG) and the Act on Limited Liability Companies (GmbHG) to fix specific targets for TUI AG, TUI Deutschland and TUI fly in financial year 2015. In financial year 2017, implementation of these targets made good progress at almost all levels, and nearly all targets were achieved.

Also see declaration in Corporate Governance Report on page 110

Proportion of women in managerial positions

%	**30 Sep 2017**	30 Sep 2016	30 Jun 2017	Target value 30 Jun 2017
TUI AG				
Supervisory Board	35	35	35	30
Executive Board	1 female	1 female	1 female	at least 1 female
First management level below Executive Board	18	10	19	20
Second management level below Executive Board	24	22	24	30
TUI Deutschland				
Supervisory Board	50	50	50	30
Executive Board	25	20	25	20
First management level below Executive Board	36	36	38	30
Second management level below Executive Board	39	40	39	40
TUI fly				
Supervisory Board	33	25	33	30
Executive Board	0	0	0	20
First management level below Executive Board	43	40	43	30
Second management level below Executive Board	42	44	41	40

A further focus is on reconciliation of family and work life. TUI offers its employees a number of attractive schemes to reconcile the demands on their professional and private lives. They include flexible working time models such as flexitime, part-time work, sabbaticals but also mobile working. We also support our employees when they are caring for children or other family members. All TUI's activities in this field are in line with local requirements and circumstances.

TUIGETHER EMPLOYEE SURVEY

A significant element of the HR strategy process and of our cultural integration is our employee survey 'TUIgether', which was carried out in 16 languages in the period under review. The survey is an important indicator where we stand, where we are good and where we should improve with the aim to improve business performance and to make TUI an even more attractive employer.

From an initial response rate of 66 % in 2015, which had already risen to 77 % in 2016, 78 % of all employees invited to take part submitted their feedback in the completed financial year. We have thus moved closer to our goal of an 80 % response rate. The survey measures the Engagement Index of TUI Group, which is 77 in this year's cycle and therefore steady compared to the previous year. It is also above the Kantar TNS Global norm – our external survey provider – which is 71. This is particularly due to a clearly defined follow-up process, which is supported and backed at all levels right through to management, and to the accompanying design of communication.

This year, seven new questions were added: which, together with 13 existing questions, will enable us to analyse the leadership style of TUI Group's managers going forward, and this year to set a baseline measure for our leadership model 'VIBE', which is currently being rolled out across the Group.

GLOBAL 60

TUI aims to encourage more international careers and promote employees with international experience. To speed up the progress, within one year 60 TUI employees are given the opportunity to make their next career move in another country and gain some experience there. This target was exceeded in year one with 64 participants.

STAFF INDICATORS

TUI Group's total headcount was steady year-on-year. The movements within the segments partly offset each other.

Personnel by segment

	30 Sep 2017	30 Sep 2016 restated	Var. %
Hotels & Resorts	26,313	24,363	+ 8.0
Cruises*	316	298	+ 6.0
Northern Region	14,196	14,891	– 4.7
Central Region	10,276	10,183	+ 0.9
Western Region	6,523	5,631	+15.8
Other Tourism	7,228	6,131	+17.9
Tourism	64,852	61,497	+ 5.5
All other segments	1,725	1,744	–1.1
TUI Group	**66,577**	**63,241**	**+ 5.3**
Discontinued operations	–	3,538	n. a.
Total	**66,577**	**66,779**	**– 0.3**

* Excludes TUI Cruises (JV) employees. Cruises employees are primarily hired by external crew management agencies.

HOTELS & RESORTS

Due to the continued growth strategy in Hotels & Resorts, the headcount rose by 8.0 % to 26,313 employees. The launch of new hotel resorts and the inclusion of additional destinations resulted in staff increases. Riu Group reported an increase in its headcount of 12.2 % to 12,091. The number of employees working for Robinson grew by 8.4 % to 3,888. Moreover, the rollout of the TUI Blue brand continued in the period under review. The number of employees working for Northern Hotels grew slightly by 4.2 % to 9,597. On the other hand, the other hotels reported a decline in their headcount by 6.8 % to 737, primarily driven by staff reductions in Turcotel Group in Turkey.

CRUISES

The headcount in the Cruises segment grew by 6.0 % year-on-year to 316. The increase was primarily attributable to the new build projects in the expedition segment and the build-up in staff numbers working for Marella Cruises.

NORTHERN REGION

Northern Region recorded a year-on-year decline in its headcount of 4.7 % to 14,196 as at the balance sheet date. It mainly resulted from the organisational transfer of TUI Nordic staff to TUI Destination Services. On the other hand, Retail and the UK airline reported slight increases in staff numbers.

CENTRAL REGION

The headcount in Central Region was flat year-on-year at 10,276 as at the balance sheet date. In Germany and Austria, staffing numbers remained constant. While Switzerland reported a decline in its headcount, Poland recorded higher staff numbers.

WESTERN REGION

The year-on-year increase in employee numbers in Western Region of 15.8 % to 6,523 was primarily due to the acquisition of Transat in France and additional recruitment at the Belgian airline. Moreover, the headcount of the Dutch tour operator declined slightly.

OTHER TOURISM

The Other Tourism segment reported an increase in its headcount of 17.9 % to 7,228, mainly driven by TUI Destination Services and the increase in the headcount of TUI Service AG due to the organisational transfer of TUI Nordic staff. In IT, the number of employees was 554, up 27.6 % year-on-year due to the transfer and a general expansion of IT employees.

ALL OTHER SEGMENTS

All other segments remained virtually flat year-on-year at 1,725 employees. The headcount in the corporate centre rose by 23.4 % to 290, as Group functions were combined and new functions were built up. By contrast, the Head Office functions in UK cut its staffing levels by 18.5 % to 286. In Future Markets, the headcount was constant on the prior year at 690.

Personnel by region*

	30 Sep 2017	30 Sep 2016 restated	Var. %
Germany	10,274	10,132	+1.4
Great Britain	13,354	13,409	– 0.4
Spain	9,607	8,967	+7.1
Other EU	20,911	19,933	+ 4.9
North and South America	4,535	3,768	+ 20.4
Other regions	7,896	7,032	+12.3
TUI Group	**66,577**	**63,241**	**+ 5.3**
Discontinued operation	–	3,538	n. a.
Total	**66,577**	**66,779**	**– 0.3**

* By domicile of company

As a global player, TUI Group and its employees operate in more than 100 destinations worldwide. The Group's headcount in Europe accounted for 81 % at the balance sheet date, with around 20 % of the total employed in the UK. The number of employees working in Germany amounted to around 15 %, followed by Spain with around 14 %. The increase in the number of employees working in North and South America, other regions and Spain is primarily due to the new openings and extensions of hotels in Hotels & Resorts. The increase reported for the rest of Europe is attributable to the acquisition of Transat and the increase in staffing numbers at the Belgian airline.

Other employee indicators

in %	TUI Group 30 Sep 2017	TUI Group 30 Sep 2016 restated	Germany 30 Sep 2017	Germany 30 Sep 2016 restated
Employment structure				
Number of employees	66,577	66,779	10,274	10,132
Employees, female	56.6	56.0	68.4	68.5
Females in managerial positions	34.1	29.4	33.9	32.8
Employees in part-time, total	17.3	18.8	37.9	36.4
Employees in part-time, female	26.2	28.8	47.8	46.2
Employees, fixed-term employment contract	30.0	33.1	14.2	15.6
Age structure				
Employees up to 20 years	5.1	5.3	3.1	2.9
Employees 21 – 30 years	30.1	30.1	20.1	20.0
Employees 31 – 40 years	26.4	27.1	22.9	24.2
Employees 41 – 50 years	23.7	23.9	30.8	31.5
Employees more than 50 years	14.7	13.6	23.1	21.4
Company affiliation				
up to 5 years	54.0	54.3	33.6	33.0
6 – 10 years	14.9	15.8	12.8	13.3
11 – 20 years	20.8	20.2	30.8	31.9
21 – 30 years	8.3	7.6	17.9	17.0
more than 30 years	2.0	2.1	4.9	4.8
Vocational training in Germany				
Number of trainees	–	–	571	569
Trainees, female	–	–	79.0	79.3
Training rate	–	–	5.6	5.7
Number of trainees gained certification in financial year	–	–	193	183
Hiring rate	–	–	73.1	70.5

Personnel costs

€ million	2017	2016	Var. %
Wages and salaries	1,896.4	1,846.7	+ 2.7
Social security contributions	298.9	286.3	+ 4.4
Pension costs	161.7	139.0	+16.3
Total	**2,357.0**	**2,272.0**	**+ 3.7**

The pay package offered by TUI Group is made up of various components, reflecting the framework conditions in different countries and companies. Depending on the function concerned, a fixed basic salary may go hand in hand with variable components. TUI Group uses these variable factors to honour individual performance and to enable employees to participate in the Company's strategic and long-term success. The pay package also reflects the appropriateness of compensation and customary market rates. Moreover, senior management have share options and are thus able to benefit directly when the Company grows in value.

In the period under review, the TUI Group's personnel costs increased by 3.7 % to € 2,357.0 m. The year-on-year increase in expenses for wages and salaries was mainly attributable to higher staff numbers in operating areas, pay rises and higher expenses for restructuring measures associated with the acquisition of the French tour operator Transat.

OTHER HR ISSUES

PENSION SCHEMES

Many TUI Group companies offer their employees pension schemes in the form of direct insurance contracts and individual or direct commitments to build up a private pension, or they pay additional contributions to pension schemes for their employees. In Germany, for instance, collective contracts have been concluded. These schemes were devised to take advantage of fiscal and social security opportunities for employee-funded company pension schemes through a direct insurance.

PART-TIME EARLY RETIREMENT
To further increase the flexibility of their company HR and succession planning, Group companies in Germany are able to make use of the opportunities provided under the German Part-Time Early Retirement Act, enabling people to shift gradually from employment to retirement. This opportunity is partly supported by current collective bargaining contracts and company agreements, and is increasingly being taken up. At the balance sheet date, €9.4 m was provided through a capital investment model for the 210 employees working under part-time early retirement contracts in order to hedge their accrued assets against employer insolvency.

EMPLOYEE REPRESENTATIVES
TUI attaches importance to national and international employee representative bodies. TUI has a large number of co-determination bodies, both at a company and supra-company level. They include local works councils, company works councils and the Group works council. The members of these bodies represent the interests of our Group's employees in Germany. Through their statutory rights of participation and initiative, they ensure representation of the interests of employees on all issues and projects of relevance to staff members and compliance with employee rights, e.g. during the implementation of restructuring activities.

The Group works council is the top-level body for representing the interests of employees in German companies in accordance with legislation on industrial relations. In financial year 2017, it had 27 members from 22 companies.

A major success for the Group was the judgment handed down by the European Court of Justice on 18 July 2017 in the matter Erzberger ./. TUI AG (CJEU case no. C-566/15). The reference for a preliminary ruling had been made by the Berlin appellate court. The ECJ had been asked, at the request of a TUI AG shareholder, to determine whether the German Industrial Co-Determination Act was in conformity with EU law as this law only grants German Group employees the right to vote and stand as a candidate in elections of workers' representatives to the Supervisory Board, while employees working for the Group's companies abroad are deprived of these rights. After proceedings lasting almost two years, the ECJ has endorsed TUI's legal interpretation. According to this ruling, the German Industrial Co-Determination Act does not violate the principle of non-discrimination, nor does it constitute an inadmissible impediment to their freedom of movement.

At a European level, TUI's Europe Forum ensures a proper process of information and consultation on cross-border issues affecting the interests of employees in at least two member states of the European Economic Area. These above-mentioned bodies primarily serve the interests of employees, but at least indirectly also serve the interests of the Group and its companies, as co-determination contributes to the stability and sustainability of entrepreneurial decisions and processes. In financial year 2017, 43 employee representatives from 16 countries were delegated to the Forum.

MATERIAL RISKS
Our success depends on our ability to attract and retain suitable skilled experts and managers. Apart from the launch of a new Employer Branding campaign, we are now extending our talent and performance management approach 'Great Place to Grow' throughout the Group, supported by the global IT solution 'TUI People'. These activities are rounded off by efforts to build our pipeline of leadership talent through the Group-wide International Graduate Leadership Programme and the professional development for managers by means of our established global programmes 'Global High Performance Leadership', 'Horizons' and 'Perspectives'. In addition, a variety of measures are implemented at local level to develop employee and managerial skills.

High-potential talents have to be identified and talent pools must be built, even across national borders. Semi-annual succession planning processes are in place for all critical business roles and key functions. We also promote strong employee engagement and motivation through employee dialogue, career development plans and corresponding processes. In the run-up to the launch of 'Great Place to Grow' in Germany in the forthcoming financial year, around 3,500 employees were invited to participate in face-to-face training sessions and accompanying e-learning sessions in the period under review.

SECURITY, HEALTH & SAFETY
The Group Security, Health & Safety (Group SHS) was established in mid-2016. The Group now has an SHS team in place that integrates and further develops all previous corporate mechanisms in the areas of Security, Occupational Health & Safety. The focus is on a holistic, Group-wide safety concept for customers and employees. The team members are experts in crisis and risk management with comprehensive experience gained from working in security agencies or companies. This interdisciplinary diversity provides the basis for professional safety management in line with needs and requirements. The development of this new department continues.

The period under review saw the development and implementation of standardised, Group-wide frameworks such as guidelines, standard processes and sample documents. They ensure fast and pertinent responses to safety-critical events and pro-active protection from risks. Examples include guidelines for safety measures in Hotels & Resorts, for business travel and for event and crisis management.

These frameworks are based on a holistic risk analysis, taking account of natural phenomena, nature-related, social and political developments in the destinations, health-related information as well as safety-relevant information from government bodies, as a basis for providing advice, e.g. in the form of safety training sessions or advisory discussions, measures or planning documents. Dialogue with scientific research institutions has been established, especially on nature-related situations, e.g. impacts of climate change.

The frameworks are applicable to TUI AG and to all companies majority-owned, directly or indirectly, by TUI AG, whether domestic or foreign and to other shareholdings in each case insofar as management control directly or indirectly lies with TUI AG. Shareholdings in which management control does not lie with TUI AG, including joint ventures, are recommended to implement the frameworks. As far as the Group Manual and supporting documents are referenced by contract, Group Manuals can also apply to TUI contractors.

On this basis, the corporate bodies dealing with security and safety issues (e. g. in Destination Services) cooperate within a network coordinated by Group SHS. This ensures coverage of the entire Group and a coordinated approach in safety-related issues tailored to the needs of the relevant area.

Implementation of this safety level is ensured by regular advice and evaluation trips to the destinations in our Hotels & Resorts. In the period under review, Group SHS carried out eight evaluation trips to destinations. Apart from the safety audits firmly embedded in the quality assurance system, we also launched security audits for Hotels & Resorts. More than 60 of these audits have meanwhile been implemented.

Apart from safety-related advice, training and awareness-building for our own staff plays a particularly important role. We offered relevant training modules in Destination Services, in particular, and around 11,700 employees were trained in this manner.

The Group-wide processes for dealing with extreme situations during event and crisis management were successfully applied, for instance, in connection with the hurricanes in September and security-relevant incidents such as the one in Barcelona at the end of August 2017. Apart from analysing the local situation, our event management mechanisms include compiling data on the number of guests and employees affected and their need for support as well as coordinating with local government bodies, European bodies and other partners. 24 / 7 control centres form the basis for fast and pertinent responses to critical events.

TUI Group's protection concept integrates security, health & safety and covers the entire process under our control, including journeys by our customers.

Anti-corruption and anti-bribery / Compliance

Details of TUI Group's anti-corruption and anti-bribery measures are presented in the Corporate Governance section on Compliance from page 112 in the present Annual Report.

ANNUAL FINANCIAL STATEMENTS OF TUI AG

Condensed version according to German Commercial Code (HGB)

Earnings position of TUI AG

The annual financial statements of TUI AG were prepared in accordance with the provisions of the German Commercial Code (HGB), taking account of the complementary provisions of the German Stock Corporation Act (AktG), and audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hanover. They are published in the electronic federal gazette. The annual financial statements have been made permanently available on the Internet at www.tuigroup.com and can be requested in print from TUI AG.

In the present Annual Report, the Management Report of TUI AG has been combined with the Management Report of TUI Group.

Income statement of TUI AG

€ million	2017	2016	Var. %
Turnover	45.4	–	n.a.
Other operating income	392.6	637.0	– 38.4
Cost of materials	7.6	–	n.a.
Personnel costs	49.9	50.3	– 0.8
Depreciation	1.0	0.5	+100.0
Other operating expenses	500.4	762.9	– 34.4
Net income from investments	933.3	353.4	+164.1
Write-downs of investments	58.1	3.7	n.a.
Net interest	8.7	– 24.6	n.a.
Taxes on income and profit	15.7	6.7	+134.3
Profit after taxes	**747.3**	**141.7**	**+ 427.4**
Other taxes	5.6	1.8	+ 211.1
Net profit for the year	**741.7**	**139.9**	**+ 430.2**

The earnings position of TUI AG, the Group's parent company, is primarily determined by the appropriation of profits by its Group companies, either directly associated with TUI AG via profit and loss transfer agreements or distributing their profits to TUI AG based on relevant resolutions.

TURNOVER AND OTHER OPERATING INCOME

In the financial year under review, turnover resulted from the reclassification of income in the framework of the first-time application of the Accounting Directive Implementation Act (BilRUG). Apart from effects resulting from the first-time application of BilRUG, the decline in Other operating income was mainly driven by a year-on-year decrease in gains on exchange. This income was offset by expenses for exchange losses of a similar amount, carried in Other operating expenses. Apart from the gains on exchange, Other operating income primarily included income from the elimination of intercompany services, carried alongside expenses of almost the same amount passed on to TUI AG from other Group companies, also shown in Other operating expenses.

EXPENSES

In the wake of the first-time application of BilRUG to financial year 2017, the expenses carried alongside the turnover were carried under expenses for purchased services.

Personnel costs declined slightly in financial year 2017. The decrease in personnel costs in this financial year was nearly offset by an increase in expenses from transfers to pension provisions.

Other operating expenses mainly comprised the cost of financial and monetary transactions, charges, fees, services, transfers to impairments, other administrative costs as well as expenses for exchange losses and the intercompany elimination of services. Other operating expenses declined in particular due to the decrease in expenses for exchange losses.

NET INCOME FROM INVESTMENTS

In the financial year under review, TUI AG's net income from investments was driven by the distribution of profits by TUI Travel Ltd and TUI Cruises GmbH and the profit transfer from TUI-Hapag Beteiligungs GmbH. Net income from investments also included income from profit transfers from hotel companies and companies allocable to central operations. It also comprised expenses for loss transfers from Group companies, resulting in a corresponding reduction in net income from investments. Loss transfers declined significantly year-on-year.

WRITE-DOWNS OF INVESTMENTS

In the period under review, write-downs of investments mainly related to write-downs of a subsidiary allocated to central operations as well as an investment in a Turkish hotel.

INTEREST RESULT

The interest result improved as a result of lower interest expenses driven by the refinancing of bonds and lower use of the syndicated credit facility. Interest income also rose due to an increase in non-current loans to Group companies by TUI AG.

TAXES

In the period under review, taxes related to income taxes and other taxes. They did not include any deferred taxes.

NET PROFIT FOR THE YEAR

For financial year 2017, TUI AG posted a net profit for the year of € 741.7 m.

Net assets of TUI AG

TUI AG's net assets and financial position as well as its balance sheet structure reflect its function as the TUI Group's parent company. The balance sheet total rose by 6.7 % to € 9.8 bn in financial year 2017.

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

€ million	30 Sep 2017	30 Sep 2016	Var. %
Intangible assets / property, plant and equipment	19.4	17.5	+ 10.9
Investments	7,078.9	6,784.8	+ 4.3
Fixed assets	**7,098.3**	**6,802.3**	**+ 4.4**
Receivables / Trade securities	1,644.4	1,724.4	– 4.6
Cash and cash equivalents	1,039.0	637.0	+ 63.1
Current assets	**2,683.4**	**2,361.4**	**+ 13.6**
Prepaid expenses	0.7	0.8	– 12.5
Assets	**9,782.4**	**9,164.5**	**+ 6.7**
Equity	**5,192.7**	**4,812.1**	**+ 7.9**
Special non-taxed items	**0.1**	**0.1**	**–**
Provisions	**462.5**	**480.8**	**– 3.8**
Bonds	300.0	306.7	– 2.2
Other liabilities	3,827.1	3,564.8	+ 7.4
Liabilities	**4,127.1**	**3,871.5**	**+ 6.6**
Liabilities	**9,782.4**	**9,164.5**	**+ 6.7**

FIXED ASSETS

At the balance sheet date, fixed assets almost exclusively consisted of investments. The increase in investments was mainly attributable to the acquisition of Canada Holdings Inc. and a Greek hotel company as well as the issue of non-current loans to subsidiaries. An opposite effect was driven by the repayment of the capital reserves of TUI Hapag-Beteiligungs GmbH.

CURRENT ASSETS

The increase in current assets of 13.6 % to € 2,683.4 m was mainly driven by the increase in cash and cash equivalents, caused by dividend payments by subsidiaries and above all the sale of the stake in Hapag-Lloyd Aktiengesellschaft.

Moreover, liquid funds were invested in short-term money market funds.

TUI AG'S CAPITAL STRUCTURE

EQUITY

TUI AG's equity increased by € 380.6 m to € 5,192.7 m. The subscribed capital of TUI AG consists of no-par value shares, each representing an equal portion in the capital stock. The proportionate share in the capital stock per share is around € 2.56. At the end of financial year 2017, the subscribed capital of TUI AG rose due to the issue of employee shares. At the end of the financial year under review, subscribed capital comprised 587,386,900 shares.

In financial year 2017, capital reserves rose by € 6.1 m due to the issue of employee shares and share-based payments. Revenue reserves exclusively consisted of other revenue reserves. The Articles of Association do not contain any provisions concerning the formation of reserves.

The profit for the year amounted to € 741.7 m. Taking account of the profit carried forward of € 454.1 m, net profit available for distribution totalled € 1,195.8 m. A proposal will be submitted to the Annual General Meeting to use the net profit available for distribution for the financial year under review to distribute a dividend of € 0.65 per no-par value share and to carry the amount of € 814.0 m, remaining after deduction of the dividend total of € 381.8 m, forward on new account. The equity ratio rose to 53.1 % (previous year 52.5 %) in financial year 2017.

PROVISIONS

Provisions decreased by € 18.3 m to € 462.5 m. They consisted of pension provisions worth € 136.0 m (previous year € 134.8 m), tax provisions worth € 196.1 m (previous year € 176.1 m) and other provisions worth € 130.4 m (previous year € 169.9 m).

While pension provisions remained largely flat year-on-year, tax provisions increased versus the prior year. An opposite effect arose from the decline in provisions for invoices outstanding, personnel costs and other risks.

LIABILITIES

TUI AG's liabilities totalled € 4,127.1 m, up by € 255.6 m or 6.6 %.

In October 2016, TUI AG issued an unsecured bond worth € 300.0 m maturing in October 2021. TUI AG used the proceeds from the issue of this bond to cancel and repay a bond issued in September 2014 ahead of its maturity date.

The increase in liabilities was mainly driven by the transactions of the TUI AG subsidiaries included in its cash pool.

TUI's net financial position (cash and cash equivalents as well as marketable securities less bonds) improved year-on-year, amounting to a clearly positive position of € 1,138.8 m in the period under review.

CAPITAL AUTHORISATION RESOLUTIONS

Information on new or existing resolutions concerning capital authorisation, adopted by Annual General Meetings, is provided in the chapter on Information Required under Takeover Law.

TUI SHARE

TUI share delivers significant outperformance post-merger

Since the announcement of the merger with TUI Travel in June 2014, the TUI share price has increased substantially. The share's Total Shareholder Return (TSR) has risen by a total of 36 % within that period, clearly outperforming the FTSE 100 and DAX 30 indices. In a challenging market environment characterised by macroeconomic and geopolitical turbulence, TUI Group fully delivered the announced merger synergies of € 100 m by the end of the completed financial year and successfully completed the disposal of all non-core businesses. Moreover, almost € 1,175 m (incl. dividend proposal for the current financial year) worth of dividends were distributed to TUI shareholders. Three and a half years after the merger, the medium-term share price performance reflects TUI's stronger post-merger integration and enhanced strategic positioning.

TUI share price continues to rise in financial year 2017

The TUI share continued to deliver an overall pleasing performance in financial year 2017. After starting off well, however, the TUI share was temporarily unable to escape the challenging market environment. At the end of October, it declined to its low for the financial year, reflecting, inter alia, the expectations regarding future monetary policies on both sides of the Atlantic and lowered earnings guidances by other companies in the travel sector. During that period, our share price performance was also affected by the unexpectedly high number of TUI fly crew members calling in sick, resulting in flight cancellations. Due to the very good trading performance and quarterly results and the successful disposal of Travelopia, however, the share price picked up again in the course of the year and delivered substantial growth by mid-February.

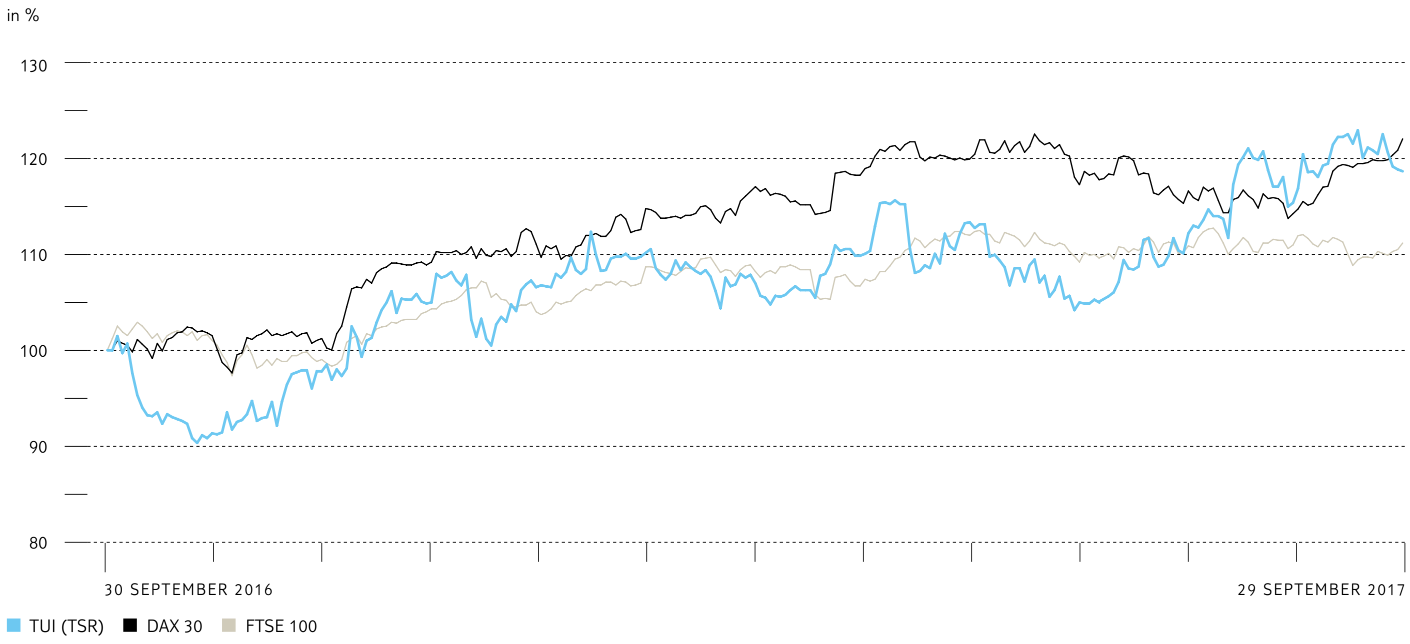
Following the dividend payment, TUI's share price showed higher overall volatility until the end of June 2017, although on average it remained largely flat. During that time, the publication of operating results or geopolitical events only triggered short-term price reactions.

The TUI share subsequently gained momentum again, benefiting in particular from good quarterly results, a pleasing trading performance and the successful disposal of the remaining stake in Hapag-Lloyd AG. The share delivered a good performance throughout the period under review. While TUI's Total Shareholder Return grew by around 19 %, FTSE 100 and DAX 30 grew by 11 % and 22 %, respectively. This demonstrates once again that we are very well positioned thanks to our differentiated portfolio, our growth strategy focused on hotels and cruises and our integrated business model.

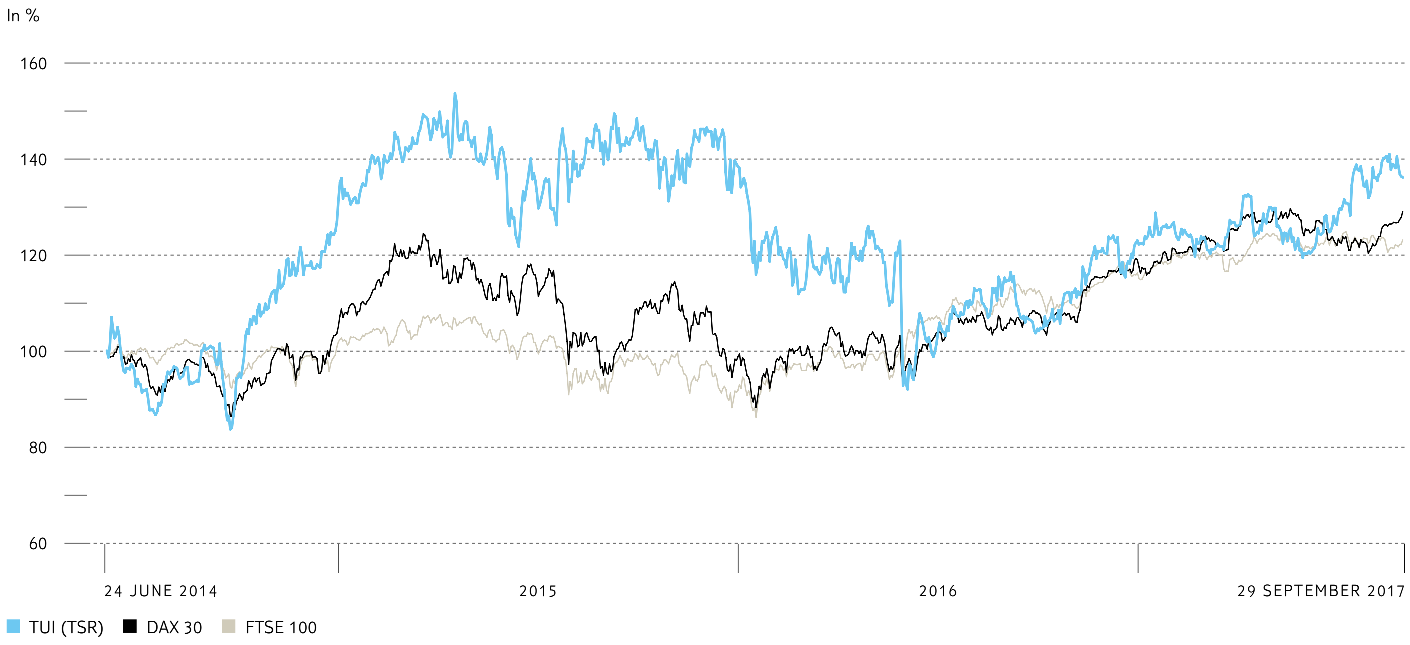
TUI share data

30 September 2017		
WKN		TUAG00
ISIN		DE000TUAG000
Stock exchange centres		London, Xetra, Hannover
Reuters / Bloomberg		TUIGn.DE / TUI1.GR (Frankfurt); TUIT.L / TUI:LN (London)
Stock category		Registered ordinary shares
Capital stock	€	1,501,630,765
Number of shares		587,386,900
Market capitalisation	bn €	8.4
Market capitalisation	bn £	7.4

TUI share price (FINANCIAL YEAR 2017)



TUI Share price since the merger announcement of TUI AG with TUI Travel PLC



Long-term development of the TUI share (Xetra)

€	2013	2014	2015	2016	**2017**
High	10.86	6.97	17.71	17.21	14.90
Low	3.68	3.14	9.84	10.17	11.46
Year-end share price	3.88	6.70	16.35	12.69	14.38

Quotations, indices and trading

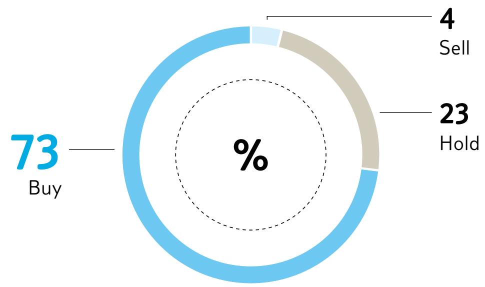
The TUI share has its primary listing in the Premium segment of the Main Market of the London Stock Exchange and is included in FTSE's UK Index Series including FTSE 100, the UK's major share index. It also has a secondary listing in the electronic trading system Xetra and at the Hanover Stock Exchange.

TUI is also listed in the sustainability indices FTSE4Good, STOXX Global ESG Leaders Index and Ethibel Investment Register. TUI has been recognised as a Leader by Carbon Disclosure Project (CDP) Climate Change for implementing current best practices on climate change issues.

In financial year 2017 the average daily trading volume at the London Stock Exchange was around 1.2 million shares, while around 0.6 million shares were traded on Xetra. Across all trading platforms, the trading volume in the UK amounted to around 2.8 million shares, with around 2.0 million shares traded in Germany. Both the sterling and the euro line therefore recorded strong liquidity in trading by institutional and private investors.

Analyst recommendations

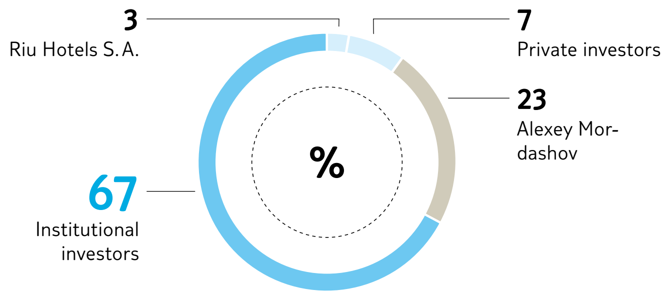
Analysts' Recommendations (30 SEPTEMBER 2017)



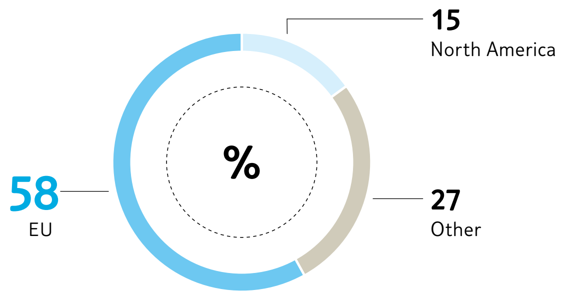
Analysis and recommendations by financial analysts are a key decision-making factor for institutional and private investors. In the financial year under review, more than 20 analysts regularly published studies on TUI Group. In September 2017, 73 % of analysts issued a recommendation to 'buy' the TUI share, with 23 % recommending 'hold'. One analyst recommended 'sell'.

Shareholder structure

Shareholder structure (30 SEPTEMBER 2017)



Geographical shareholder structure (30 SEPTEMBER 2017)



The current shareholder structure and the voting right notifications pursuant to section 26 of the German Securities Trading Act are available online at: www.tuigroup.com/en-en/investors/news

At the end of financial year 2017, around 77 % of TUI shares were in free float. Around 7 % of all TUI shares were held by private shareholders, around 67 % by institutional investors and financial institutes and around 26 % by strategic investors. Analysis of the shareholders shows that over half of shares were held by investors from EU countries.

Dividend policy

Development of dividends and earnings of the TUI share

€	2013	2014	2015	2016	**2017**
Earnings per share	– 0.14	+ 0.26	+ 0.64	+1.78	+1.10
Dividend	0.15	0.33	0.56	0.63	0.65

In the framework of the merger with TUI Travel, TUI Group defined a dividend policy under which the dividend increases in line with the growth in underlying EBITA a constant currency. A proposal will therefore be submitted to the Annual General Meeting to distribute a dividend of € 0.65 per no-par value share to the shareholders for financial year 2017.

Investor Relations

Open and continuous dialogue and transparent communication form the basis for our Investor Relations work with our private shareholders, institutional investors, equity and credit analysts and lenders. In the completed financial year, many discussions were held, centring on the growth strategy for the integrated tourism group and the development of business in the various segments, enabling stakeholders to make a realistic assessment of TUI Group's future development. In this context, TUI's management team sought dialogue with investors at roadshows and conferences in London, Edinburgh, Frankfurt, Berlin, Munich, Zurich, Lugano, Vienna, Milan, Madrid, Amsterdam, Brussels, Paris, Oslo, Copenhagen, New York, Boston and Toronto. Questions from analysts and investors were also answered at the conference calls held upon publication of interim reports and in the framework of analysts' meetings.

TUI's Investor Relations team also makes every effort to engage in direct contact with private investors. TUI Group's IR team sought dialogue with this target group on many occasions, such as events organised by shareholder associations. Another key platform for exchanges with private shareholders was the IR stall at TUI's Annual General Meeting. TUI also uses its website to address its private investors with a broad range of information. All IR conference calls and the Full year Review were likewise transmitted live and in full on the website.

⊕ *More details about Investor Relations online at: www.tuigroup.com/en-en/investors*

INFORMATION REQUIRED UNDER TAKEOVER LAW

pursuant to sections 289 (4) and 315 (4) of the German Commercial Code (HGB) and explanatory report

Composition of subscribed capital

The subscribed capital of TUI AG consists of no-par value shares, each representing an equal share of the capital stock. As a proportion of the capital stock, the value of each share is around € 2.56.

The subscribed capital of TUI AG, registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover, consisted of 587,386,900 shares at the end of financial year 2017 (previous year 587,038,187 shares) and totalled € 1,501,630,765.46. Each share confers one vote at the Annual General Meeting.

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

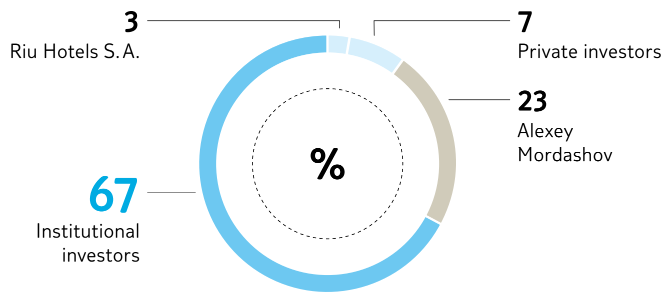
The Executive Board of TUI AG is not aware of any restrictions on voting rights or the transfer of shares.

EQUITY INTERESTS EXCEEDING 10 % OF THE VOTING RIGHTS

The Executive Board of TUI AG has been notified of the following direct or indirect equity interests reaching or exceeding 10 % of the voting rights:

Alexey Mordashov, Russia, notified us on 15 December 2016 pursuant to section 21 (1) of the German Securities Trading Act that the voting shares in TUI AG, Hanover, Germany, attributable to him exceeded the 20 % threshold on 12 December 2016. As per that date, voting shares totalling 20.01 % (or 117,484,579 voting rights) were attributable to Alexey Mordashov pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act. On the basis of the notifications pursuant to section 19 of the MAR, the voting shares in TUI AG attributable to him amounted to 23.0 % as at 30 September 2017.

Shareholder structure (30 SEPTEMBER 2017)



At the end of financial year 2017, around 77 % of TUI shares were in free float. Around 7 % of all TUI shares were held by private shareholders, around 67 % by institutional investors and financial institutions, and around 26 % by strategic investors. According to a shareholder analysis, over half of shares are held by investors in the European Union.

Shares with special rights conferring powers of control

No shares with special rights conferring powers of control have been issued.

System of voting right control of any employee share scheme where the control rights are not exercised directly by the employees

Where TUI AG grants shares to employees under its employee share programme, the shares are directly transferred to the employees with a lock-up period. Beneficiaries are free to directly exercise the control rights to which employee shares entitle them, in just the same way as other shareholders, in line with legal requirements and the provisions of the Articles of Association.

Appointment and removal of Executive Board members and amendments to the Articles of Association

The appointment and removal of Executive Board members is based on sections 84 et seq. of the German Stock Corporation Act in combination with section 31 of the German Codetermination Act. Amendments to the Articles of Association are based on the provisions of sections 179 et seq. of the German Stock Corporation Act in combination with section 24 of the Articles of Association of TUI AG.

Powers of the Executive Board to issue or buy back shares

The Annual General Meeting of 14 February 2017 authorised TUI AG's Executive Board to acquire own shares of up to 5 % of the capital stock. The authorisation will expire on 13 August 2018. To date, the option to acquire own shares has not been used.

The Annual General Meeting of 9 February 2016 adopted a resolution to create conditional capital of € 150.0 m for the issue of bonds. The authorisation to issue bonds with conversion options or warrants as well as profit-sharing rights and income bonds (with or without fixed terms) of up to a nominal amount of € 2.0 bn will expire on 8 February 2021.

The Annual General Meeting of 13 February 2013 adopted a resolution to create authorised capital for the issue of employee shares worth € 10.0 m. The Executive Board of TUI AG is authorised to use this approved capital by 12 February 2018 in one or several transactions by issuing employee shares against cash contribution. In the completed financial year, 348,713 new employee shares were issued, so that the authorised capital totalled around € 7.4 m at the balance sheet date.

The Annual General Meeting of 28 October 2014 adopted a resolution to create authorised capital for the issue of new shares against cash contribution worth € 18.0 m in order to be able to fulfil claims for shares in TUI Travel granted by TUI Travel to its employees in the form of new shares in TUI AG. This authorisation is no longer required and will therefore be revoked ahead of its expiry date.

The Annual General Meeting of 9 February 2016 adopted a resolution to create authorised capital for the issue of new registered shares against cash contribution worth a maximum of € 150.0 m. The authorisation will expire on 8 February 2021.

The Annual General Meeting on 9 February 2016 also adopted a resolution to create authorised capital for the issue of new shares of € 570.0 m against cash contributions or contributions in kind. The issue of new shares against contributions in kind has been limited to € 300.0 m. The authorisation will expire on 8 February 2021.

Significant agreements taking effect in the event of a change of control of the Company following a takeover bid, and the resulting effects

Some of TUI AG's outstanding financing instruments contain change of control clauses. A change of control occurs in particular if a third partly directly or indirectly acquires control over at least 50 % or the majority of the voting shares in TUI AG.

In the event of a change of control, the holders of the fixed-interest bond worth € 300.0 m issued in October 2016 must be offered a buyback. For the syndicated credit line worth € 1.75 bn, of which € 115.9 m had been used via bank guarantees as at the balance sheet date, a right of termination by the lenders has been agreed in the event of a change of control. This also applies to several bilateral guarantee lines with a total volume of £ 92.5 m, concluded with various insurance companies. At the balance sheet date, an amount of 32.9 m pounds had been used. Beyond this, 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 are 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 held by TUI in RIUSA II S.A.

A similar agreement concerning a change of control at TUI AG has been 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 are attributable to a shareholder group. In that case, the El Chiaty Group is entitled to acquire at least 15 % and at most all shares held by TUI in the joint hotel companies in Egypt and the United Arab Emirates.

A change of control agreement has also been concluded for the joint venture TUI Cruises between Royal Caribbean Cruises Ltd and TUI AG for the event that a change of control occurs in TUI AG. The agreement gives the partner the right to demand termination of the joint venture and to purchase the stake held by TUI AG at a price which is lower than the selling price of their own stake.

Compensation agreements have not been concluded between the Company and Executive Board members or employees in the event of a takeover bid.

Robinson Club Noonu in the Maldives is a new addition to the TUI hotel portfolio. As we expand our hotel business in the Indian Ocean and South-East Asia, we are catering for both European and Asian target groups. In China especially, the travel-loving middle classes are growing fast.

READ MORE ABOUT THE CHINESE GROWTH MARKET IN THE MAGAZINE UNDER 'NEW DEPARTURES'

Corporate Governance

EXECUTIVE BOARD AND SUPERVISORY BOARD

Supervisory Board

Name	Function / Occupation	Location
Prof. Dr Klaus Mangold	Chairman of the Supervisory Board of TUI AG	Stuttgart
	Chairman of the Supervisory Board of Rothschild GmbH	
Frank Jakobi[1]	Deputy Chairman of the Supervisory Board of TUI AG	Hamburg
	Travel Agent	
Sir Michael Hodgkinson	Deputy Chairman fo the Supervisory Board of TUI AG	London
Andreas Barczewski[1]	Aircraft Captain	Hanover
Peter Bremme[1]	Regional Head of the Special Services Division	Hamburg
	of ver.di – Vereinte Dienstleistungsgewerkschaft	
Prof. Dr Edgar Ernst	President of Deutsche Prüfstelle für Rechnungslegung (DPR)	Bonn
Wolfgang Flintermann[1]	Director Group Financial Accounting & Reporting, TUI AG	Großburgwedel
Angelika Gifford	Vice President and General Manager DACH Microfocus GmbH	Kranzberg
Valerie Frances Gooding	Member of supervisory bodies in different companies	Weybridge
Dr Dierk Hirschel[1]	Business unit manager of the trade-unition ver.di – Vereinte Dienstleistungsgewerkschaft	Berlin
Janis Kong	Member of supervisory bodies in different companies	London
Peter Long	Chairman Royal Mail Group PLC	London
Coline McConville	Member of supervisory bodies in different companies	London
Alexey Mordashov	Chairman Board of Directors of PAO Severstal	Moscow
Michael Pönipp[1]	Hotel Manager	Hanover
Carmen Riu Güell	Managing Director RIUSA II S.A.	Palma de Mallorca
Carola Schwirn[1]	Department Coordinator in the Transportation Division of	Berlin
	ver.di – Vereinte Dienstleistungsgewerkschaft	
Anette Strempel[1]	Travel Agent	Hemmingen
Ortwin Strubelt[1]	Travel Agent	Hamburg
Stefan Weinhofer[1]	International Employee Relations Coordinator at TUI AG	Vienna

1 Representative of the employees
2 Information refers to 30 September 2017 or date of resignation from the Supervisory Board of TUI AG in financial year 2017.
3 Chairman
4 Deputy Chairman

a) Membership in supervisory boards within the meaning of section 125 of the German Stock Corporation Act (AktG)
b) Membership in comparable German and non-German bodies of companies within the meaning of section 125 of the German Stock Corporation Act (AktG)

Initial Appointment	Appointed until AGM	Other Board Memberships[2]		Number of TUI AG shares (direct and indirect)[2]
7 Jan 2010	2021	a) Continental AG	b) Alstom S.A.	0
			Baiterek Holding JSC	
			Ernst & Young Global Ltd.	
			Rothschild GmbH[3]	
15 Aug 2007	2021			590
11 Dec 2014	2021	b) Keolis (UK) Limited[3]		7,980
		Keolis Amey Docklands Ltd.		
		World Airport Partners GmbH		
10 May 2006	2021	a) TUIfly GmbH[4]		0
2 Jul 2014	2021	a) TÜV Nord AG		0
9 Feb 2011	2021	a) Deutsche Postbank AG		0
		Metro AG		
		VONOVIA SE[3] (interim)		
13 Jun 2016	2021	a) Deutscher Reisepreis-Sicherungsverein VVaG		188
26 Mar 2012	2021	a) ProSiebenSat1 Media SE	b) Rothschild & Co	4,100
11 Dec 2014	2020	b) Vodafone Group PLC		994
16 Jan 2015	2021	a) DZ-Bank AG		0
11 Dec 2014	2020	b) Bristol Airport Ltd.	South West Airports Ltd.	5,985
		Copenhagen Airport	Roadis Transportation Holding S.L.U.	
		Portmeirion Group PLC		
9 Feb 2016	2021	b) Royal Mail Group PLC[3]	Parques Reunidos Servicios Centrales S.A.	10,317
		Countrywide PLC		
11 Dec 2014	2020	b) Fevertree Drinks PLC	Travis Perkins PLC	0
		Inchape PLC		
9 Feb 2016	2021	b) AO "Severstal Management"[3]	Nordgold S.E.	135,018,584
		OAO "Power Machines"[3]		
17 Apr 2013	2021	a) TUI Deutschland GmbH		292
		MER-Pensionskasse VVaG.		
14 Feb 2005	2021	b) Hotel San Francisco S.A.	Riu Hotels S.A.	19,854,616
		Productores Hoteleros Reunidos S.A.	RIUSA II S.A.	
1 Aug 2014	2021			0
2 Jan 2009	2021			1,468
3 Apr 2009	2021			4,131
9 Feb 2016	2021		b) TUI Austria Holding GmbH	0

Executive Board

Name	Department	Other Board Memberships[1]		Number of TUI AG shares (direct and indirect)[1]
Friedrich Joussen	CEO	a) Sixt SE[2]		278,081
(Age 54)				
Member of the Executive Board since				
October 2012				
CEO of the Executive Board from				
February 2013				
Joint-CEO since December 2014				
CEO since February 2016				
Current appointment until October 2020				
Horst Baier	Finance		b) RIUSA II S.A.[2]	40,717
(Age 60)			TUI Canada Holdings Inc.	
Member of the Executive Board since			Sunwing Travel Group Inc.	
November 2007				
Current appointment until November 2018				
David Burling	Northern Region	b) TUI Travel Holdings Ltd.	Thomson Travel Group (Holdings) Ltd	16,300
(Age 49)	Airlines	TUI Travel Ltd.	TUI Travel Overseas Holdings Ltd.	
Member of the Executive Board since	Hotel Purchasing	First Choice Holidays Ltd.	TUI Canada Holdings Inc.	
June 2015		First Choice Holidays & Flights Ltd.	TUI Northern Europe Ltd.	
Current appointment until May 2021		Sunwing Travel Group Inc.	TUI Travel Group Management	
		First Choice Olympic Ltd.	Services Ltd.	
		TUI Sverige AB	TUI UK Transport Ltd.	
		TUI Travel Holdings		
		Sweden AB		
		TUI Nordic Holding AB		
Sebastian Ebel	Central Region	a) TUI Deutschland GmbH[2]	b) RIUSA II S.A.	250
(Age 54)	Hotels	TUI Cruises GmbH	TUI Spain S.A.	
Member of the Executive Board since	Cruises	TUIfly GmbH[2]	TUI Suisse Ltd.[2]	
December 2014	TUI Destination Services	BRW Beteiligungs AG		
Current appointment until November 2020		Eintracht Braunschweig		
		GmbH & Co KG[2]		
		Eves Information Technology AG[2]		
Dr Elke Eller	HR,	a) Nord LB	b) TUI Nederland N.V.	12,545
(Age 55)	Labour Director	TUI Deutschland GmbH	TUI Belgium N.V.	
Member of the Executive Board since		TUIfly GmbH		
October 2015				
Current appointment until October 2021				
Frank Rosenberger	IT and New Markets	a) TUI Deutschland GmbH		
(Age 49)		peakwork AG		
Member of the Executive Board since				
January 2017				
Current appointment until December 2019				

[1] Information refers to 30 September 2017 or date of resignation from the Excecutive Board in financial year 2017.
[2] Chairman

a) Membership in Supervisory Boards required by law within the meaning of section 125 of the German Stock Corporation Act (AktG)
b) Membership in comparable Boards of domestic and foreign companies within the meaning of section 125 of the German Stock Corporation Act (AktG)

CORPORATE GOVERNANCE REPORT

Statement on Corporate Governance (as part of the Management Report)

The actions of TUI AG´s management and oversight bodies are determined by the principles of good and responsible corporate governance.

The Executive Board and the Supervisory Board comprehensively discussed Corporate Governance issues in financial year 2017. In this chapter, the Executive Board and the Supervisory Board provide their report on Corporate Governance in the Company pursuant to sub-section 3.10 of the German Corporate Governance Code and section 289a of the German Commercial Code (HGB) as well as Disclosure and Transparency Rule (DTR) 7.2 and Listing Rule (LR) 9.8.7R.

1. Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (AktG)

As a stock corporation company under German law, TUI AG's Executive Board and Supervisory Board are obliged to submit a declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act.

⊕ *www.dcgk.de/en/code.html*

In December 2017, the Executive Board and the Supervisory Board jointly submitted the declaration of compliance for 2017 pursuant to section 161 of the German Stock Corporation Act. The declaration was made permanently accessible to the general public on TUI AG's website in December 2017.

⊕ *www.tuigroup.com/de-de/investoren/corporate-governance*

WORDING OF THE DECLARATION OF COMPLIANCE FOR 2017

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

Since the last annual declaration of compliance was submitted in December 2016, the recommendations of the German Corporate Governance Code in the version dated 5 May 2015 have been fully observed. The recommendations of the Code in the version dated 7 February 2017 have been and will be fully observed since its entry into force.'

2. Declaration of Compliance pursuant to DTR 7.2 and LR 9.8.7R

At the time of the merger TUI AG had announced it would comply with the UK Corporate Governance Code (the UK Code)

⊕ *https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf*

to the extent practicable. In many respects, the requirements of the German Code and the UK Code are similar. However, there are certain aspects which are not compatible (in some cases due to the different legal regimes for German and UK companies). Therefore some deviations from best practice in the UK have been necessary.

Under the German Stock Corporation Act, the legislation applicable to TUI AG, a two-tier board system is mandatory (see below section 'Functioning of the Executive and Supervisory Board' on page 108). The two-tier board structure is different to the UK unitary board structure on which the UK Code is based. Some of the principles of composition and operation of the boards of a German stock corporation also differ from those of a UK company (for example, there is no Company Secretary). For this reason, the Executive Board and the Supervisory Board have set out below in which areas the UK Code is not complied with and explained the reasons for the deviations. In addition, the Executive Board and the Supervisory Board have also explained those instances where they consider TUI AG not to be compliant with the UK Code in the literal sense but where it lives up to the spirit and meaning of the respective regulation.

Sub-headings refer to sections of the UK Code for ease of reference for investors.

Pursuant to DTR 7.2 and LR 9.8.7R, the Executive Board and the Supervisory Board therefore declare as follows:

WORDING OF THE UK CORPORATE GOVERNANCE STATEMENT

'Throughout the reporting period, TUI AG has complied with the provisions of the UK Code, including its main principles, except as set out and explained below.

IDENTIFICATION OF SENIOR INDEPENDENT DIRECTOR (A1.2, A4.1)

Under German law and the German Code, there is no concept of a 'Senior Independent Director'. Instead, shareholders may raise any issues at the Annual General Meeting (AGM). In this forum, the Executive Board and the Chairman of the Supervisory Board are available to address any issues and are legally obliged to provide adequate responses.

Outside the AGM, shareholders may approach the Executive Board, in particular the CEO or the CFO, or, for topics relating to Supervisory Board matters, the Chairman of the Supervisory Board or any of his Deputies. Sir Michael Hodgkinson, who was the Deputy Chairman and Senior Independent Director of TUI Travel PLC before the merger, was re-elected as additional Deputy Chairman of the Supervisory Board of TUI AG in February 2016 alongside Frank Jakobi (First Deputy Chairman who, under the German Co-Determination Act, must be an Employee Representative).

DIVISION OF RESPONSIBILITIES – CHAIRMAN & CHIEF EXECUTIVE (A2.1)

The separation of the roles of the Chairman of the Supervisory Board (Prof. Klaus Mangold) and the CEO (Friedrich Joussen) is clearly defined under German law as part of the two-tier board structure. Therefore, no further division of responsibilities is required and both the Executive Board and the Supervisory Board consider that TUI AG lives up to the spirit and meaning of the UK Code.

INDEPENDENCE OF SUPERVISORY BOARD MEMBERS (B1.1)

Under the UK Code, the Board must identify in the annual report each non-executive director it considers to be 'independent' for the purposes of the UK Code. Based on the responsibilities assigned to the Supervisory Board by the German Stock Corporation Act, the members of the Supervisory Board are considered to be non-executive directors for the purposes of the UK Code. Under the UK Code, persons are 'independent' if they are independent in character and judgement and if there are no relationships or circumstances which are likely to affect, or could appear to affect, their judgement. TUI AG does not, however, extend its independence disclosures to employee representatives on the Supervisory Board (for a detailed explanation of shareholder and employee representatives and the underlying considerations, please see below).

The Supervisory Board has determined that six of its nine shareholder representative members (excluding the Chairman, as required by the UK Code) are independent for the purposes of the UK Code. The shareholder representatives of the Supervisory Board considered to be independent are: Prof. Edgar Ernst, Valerie Gooding, Sir Michael Hodgkinson, Janis Kong, Coline McConville and Angelika Gifford. The Chairman was independent on election in 2011 and re-election in February 2016 and is still considered independent (Prof. Mangold also was independent when he was elected to the Supervisory Board in January 2010).

The members of the Supervisory Board not considered to be independent for the purposes of the UK Code are Carmen Riu Güell, Alexey Mordashov and Peter Long.

In reaching its determination, the Supervisory Board has considered, in particular, the factors set out below.

SHAREHOLDER AND EMPLOYEE REPRESENTATIVES

The Supervisory Board of TUI AG consists of ten members who are elected by shareholders at AGM (the 'Shareholder Representatives') and ten members who represent the employees of TUI AG (the 'Employee Representatives'). This differs from UK practice where only those board members representing major shareholders are typically referred to as 'Shareholder Representatives' and are not considered independent under the UK Code because of their link to a significant shareholder.

In TUI AG, only the shareholder representatives Carmen Riu Güell (Riu Hotels, approx. 3.4 % of the voting rights) and Alexey Mordashov (approx. 23 % of the voting rights via Unifirm Ltd., majority controlled by himself) are connected to significant shareholders or are shareholders themselves. It should also be noted that joint ventures exist between TUI AG and both Riu Hotels S. A. and TUI Russia & CIS (in which a majority controlling interest is held by Mr Mordashov) (for further details see page 96 of the Annual Report). Until his election to the Supervisory Board in February 2016, Peter Long was Joint-CEO of TUI AG from December 2014 to February 2016. Prior to that, he was a member of the Executive Board of TUI AG from 2007 and CEO of TUI Travel PLC. Therefore, neither Ms Riu Güell nor Mr Mordashov nor Mr Long are considered independent for the purposes of the UK Code.

Seven of the ten employee representatives of the Supervisory Board are elected by the employees of TUI Group entitled to vote. Three employee representatives are nominated by a German trade union (ver.di).

Under the UK Code, directors who are or have been employees of the Group in the last five years or who participate in the Group's pension arrangements would generally not be considered independent. In the UK, directors with an employment relationship are normally current or former executives. By contrast, under German law, employee representatives of the Supervisory Board must be employees of the Group, and must be elected by the employees without any involvement of the Executive or Supervisory Boards. Furthermore, the employment contract of employee representatives may only be terminated in exceptional cases.

The employee representatives may also participate in Group pension schemes as is normal for employees and in their capacity as employees.

Trade union representatives are nominated, and employed by, the trade union but are still classified as employee representatives. They can only be removed from the Supervisory Board by their respective union and neither the Executive nor the Supervisory Board has any role in their appointment or removal.

HALF THE BOARD SHOULD BE INDEPENDENT NON-EXECUTIVE DIREC TORS (B1.2)

Since, for the purpose of the UK Code, only the shareholder representatives on the Supervisory Board are taken into account, with six independent members (excluding the Chairman of the Supervisory Board) more than half of its members are considered independent.

NOMINATION COMMITTEE – COMPOSITION AND RESPONSIBILITIES (B2.1)

The role of the Nomination Committee in a typical UK company is fulfilled in TUI AG by two Committees of the Supervisory Board:

Under the Rules of Procedure for the Supervisory Board and its Committees (which are equivalent to the Terms of Reference of a British corporation) the Nomination Committee considers and proposes suitable candidates as shareholder representatives to the Supervisory Board for its election proposals to the AGM. The Presiding Committee determines the requirements and remuneration for any new appointments to the Executive Board and recommends suitable candidates to the Supervisory Board. On that basis, the Supervisory Board appoints Executive Board members. This approach is different from the UK where all director appointments are approved by shareholders at the AGM.

However, as is common practice in Germany, at each AGM shareholders are asked to decide whether they approve the actions of the Executive Board and Supervisory Board members during the past financial year. Since the AGM 2015, in the light of UK practice, TUI AG has changed its procedure to allow a separate vote on each individual Executive Board and Supervisory Board member, as it is customary in the UK. TUI AG intends to continue this practice. Accordingly, the Supervisory Board considers that TUI AG lives up to the spirit and meaning of the UK Code to the extent practicable.

There is no requirement under German law or the German Corporate Governance Code for the majority of the Nomination Committee members to be independent. Of the four members of the Nomination Committee, two are either significant shareholders themselves or associated with significant shareholders (Carmen Riu Güell and Alexey Mordashov) and therefore not independent for the purposes of the UK Code. The remaining two members are Sir Michael Hodgkinson and Prof. Klaus Mangold (Chairman) who are both independent. Therefore TUI AG is not compliant with the UK Code which requires a majority of the Nomination Committee to be independent. However, TUI AG considers that the current membership of the Nomination Committee provides a strong and experienced pre-selection of Supervisory Board shareholder representation members, while keeping the Committee to a manageable size.

A publication of the Rules of Procedure for the Supervisory Board, its committees (including the Audit Committee) and for the Executive Board is not provided for under German law and the German Corporate Governance Code. Therefore TUI AG is not compliant with this provision of the UK Code.

NOMINATION COMMITTEE SECTION IN THE ANNUAL REPORT & ACCOUNTS (B2.4)

For the activities of the Nomination Committee, see page 13 which is part of the Chairman's letter to shareholders.

During the year, a personnel consultancy (Spencer Stuart) has been used to search a Supervisory Board member as successor to the chairman of the Supervisory Board. This personnel consultancy has no further connection to the company. Succession planning for management members below Executive Board level is carried out by the Executive Board. The Presiding Committee is responsible for succession planning for the Executive Board.

TERMS & CONDITIONS OF APPOINTMENTS OF NON-EXECUTIVE DIRECTORS (B3.2)

The terms and conditions of Supervisory Board members' appointments follow the provisions of the German Stock Corporation Act and the Articles of Association of TUI AG. The Articles of Association are available on the website at www.tuigroup.com/en-en/investors/corporate-governance.

ADVICE AND SERVICES OF THE COMPANY SECRETARY (B5.2)

There is no specific role of Company Secretary in German companies. However, Executive and Supervisory Board members have access to the Board Office of TUI AG if they need any advice or services. The Board Office acts as an interface in corporate matters for the Executive and Supervisory Board members and is responsible for ensuring that the requisite processes and procedures are in place governing all Executive and Supervisory Board meetings (i.e. preparation of agendas, minuting of meetings and ensuring compliance with German and UK law, as appropriate, and with recommendations for corporate governance). The Board Office also supports the Chairman, the CEO, the CFO and the Chairmen of the Audit Committee and the Strategy Committee. Executive and Supervisory Board members also have access to legal advice via the Group Legal Director and the Board Office. The Supervisory Board can also approach the Executive Board directly for specific advice on any matters. Accordingly, the Executive Board and the Supervisory Board consider that TUI AG lives up to the spirit and meaning of the UK Code.

BOARD PERFORMANCE EVALUATION (B6)

The performance of each individual Executive Board member is evaluated annually by the Supervisory Board for the annual performance-based remuneration. In this context, the Supervisory Board also reviews the individual member's overall performance as part of the Executive Board. However, no external performance evaluation is done for the Executive Board.

It is not customary to conduct annual reviews of the Supervisory Board's efficiency. Each Supervisory Board member can give feedback to the Chairman, the Deputy Chairmen or the Supervisory Board as a whole as and when appropriate or required.

External evaluation, which includes the work of the Chairman of the Supervisory Board, is performed by means of individual interviews and anonymous reviews. Executive Board members are invited to contribute to the process. Consolidated results are shared with the entire Supervisory Board and appropriate actions are suggested and discussed as appropriate. The last external review of the Supervisory Board was undertaken in 2015 by Board Consultants International. Board Consultants International has no other connection with TUI AG.

ANNUAL RE-ELECTION BY SHAREHOLDERS AT THE AGM (B7.1)

None of the Executive or Supervisory Board members is re-elected annually. However, as noted above, in light of the UK Code and UK best practice, TUI AG voluntarily puts individual resolutions approving the actions of each Executive and Supervisory Board member to the AGM resolving on the annual financial statements for the previous year. TUI AG intends to continue this practice.

The end of appointment periods for Supervisory Board members are disclosed in the table from page 100. Current curricula vitae of all Executive and Supervisory Board members are published at www.tuigroup.com/en-en/investors/corporate-governance.

FAIR, BALANCED AND UNDERSTANDABLE ANNUAL REPORT AND ACCOUNTS (C1.1)

In a German stock corporation the Executive Board is responsible for drafting the Annual Report & Accounts (ARA). According to section 243 (2) of the German Commercial Act (HGB) the ARA must be clearly arranged and should present a realistic picture of the Company's economic situation. This is equivalent to the UK Code requirement for the ARA to be fair, balanced and understandable. Although this assessment has not been delegated to the Audit Committee (C3.4), the Executive Board is convinced that this ARA satisfies both requirements.

ESTABLISHMENT AND OPERATION OF REMUNERATION COMMITTEE (D2), REMUNERATION (D1)

In the German governance structure there is no separate Remuneration Committee. The remuneration of the Executive Board is under involvement of the employee representatives monitored and agreed by the Supervisory Board based on recommendations from the Presiding Committee, which is governed by the Supervisory Board Rules of Procedure, as referred to above.

Supervisory Board remuneration and the remuneration of Board Committee members is governed by the Articles of Association as resolved on by the shareholders at the AGM.

There are no clawback or malus provisions in the service contracts of Executive Board members. Such provisions would be unusual (and probably unenforceable) in Germany. However, there are different contractual and statutory provisions that may allow for a reduction or forfeiture of remuneration components or allow TUI AG to claim damages from Executive Board members. First, the service contracts of Executive Board members provide for forfeiture of the annual bonus and the LTIP if TUI AG terminates the service contract for cause without notice before the end of the one year performance period in the case of the annual bonus or before the end of the respective performance period of the LTIP. Second, according to section 87 (2) German Stock Corporation Act (AktG) the Supervisory Board may, under certain exceptional circumstances, reduce Executive Board compensation in case of a deterioration of the economic situation of TUI AG. Third, Executive Board members may be liable for damages under the German Stock Corporation Act in case of a breach of their duties of care or fiduciary duties.

See the Directors' Remuneration Report from page 116 for full details on Executive and Supervisory Board member´s remuneration.

NOTICE PERIODS FOR EXECUTIVE DIRECTORS (D1.5)

In accordance with the customary practice in Germany members of the Executive Board are appointed for a term of three to five years. This does not comply with the UK Code recommendation which stipulates that notice or contract periods should be set at one year or less. However, the contracts include maximum limits on the amounts payable on termination.

See Remuneration Report from page 116

DIALOGUE WITH SHAREHOLDERS (E1)

It was not common practice in German companies for Supervisory Board members to make themselves available for meetings with major shareholders. However, the German Corporate Governance Code in the version dated 7 February 2017 now stipulates in section 5.2 that the Chairman of the Supervisory Board should be willing to meet with investors in an appropriate manner to discuss Supervisory Board matters. Shareholders made use of this option in financial year 2017.

The table below provides an overview of all meetings with shareholders, in some of which also employees of Investor Relations participated.

Dialogue with shareholders

Date	Meeting	Participants
October 2016	Roadshow Brussels	HB
	Roadshow Paris	HB
December 2016	Roadshow UK	FJ, HB
January 2017	Commerzbank German Investment Seminar	HB
	Roadshow US	HB
	UniCredit / Kepler Cheuvreux German Corporate Conference	HB
February 2017	Roadshow Paris	HB
March 2017	Barclays Select Leisure & Transport Corporate Day	HB
April 2017	Morgan Stanley Roundtable	HB
May 2017	BAML Investor Dinner London	FJ, HB
	Roadshow UK	FJ, HB
	Roadshow Frankfurt	FJ, HB
	Berenberg European Conference USA	HB
	Roadshow US	HB
	Roadshow Copenhagen	HB
June 2017	Roadshow Oslo	HB
	Roadshow Zurich	HB
	Roadshow Netherlands	HB
	dbAccess German, Swiss and Austrian Conference	HB
	Goldman Sachs Travel & Leisure Symposium	HB
	Credit Suisse Leisure Sector Conference	HB
Juli 2017	Governance Meetings	KM, SMH
August 2017	MainFirst Travel and Transport Days	HB
September 2017	Bernstein Strategic Decisions Conference	HB
	Berenberg & Goldman Sachs GCC Conference	HB

Key: Prof. Dr Klaus Mangold (KM), Sir Michael Hodgkinson (SMH), Friedrich Joussen (FJ), Horst Baier (HB)

Key topics discussed at meetings between shareholders and Executive Board members included:

- Exogenous impacts on the business model
- Growth strategy of the integrated tourism group
- Business development in the individual company sectors

The Supervisory Board receives feedback from the Chairman and Deputy Chairman (shareholder representative) and Executive Board members following meetings with major shareholders or investors. Additionally, a monthly Investor Relations Report and event-driven assessments of brokers are forwarded to the Executive Board and the Supervisory Board. They contain updates on the share price development, analyses by sellers and feedback and assessments from investors.

The Executive Board and the Supervisory Board consider that TUI AG lives up to the spirit and meaning of the UK Code.

AGM RESOLUTION ON FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS (E2.1)

It is not common practice in Germany to pass a resolution at the AGM to approve the financial statements and consolidated financial statements. Therefore, this was not done at the AGM in 2017 and it is not intended to do so at the AGM in 2018. However, as required by German law, the first item on the agenda of TUI AG's AGM is the presentation of the financial statements and consolidated financial statements to the AGM. Under this item, the Executive Board will explain the financial statements and consolidated financial statements and the Chairman will explain, in particular, the report of the Supervisory Board (including this UK Corporate Governance Statement). Shareholders will have the opportunity to raise questions. Questions are typically raised, as is normal in the AGMs of German companies, and, as a general rule, answers must be provided under German law.

This is the standard practice for a German company and is in full compliance with the German Code. While the lack of a resolution to approve the Annual Report & Accounts is not in compliance with the UK Code, TUI AG considers that the arrangements afford shareholders with sufficient opportunity to raise any questions or concerns that they may have in relation to the Annual Report & Accounts, and to receive answers, in the AGM. Accordingly, the Executive Board and the Supervisory Board consider that TUI AG lives up to the spirit and meaning of the UK Code to the extent practicable.

CIRCULATION OF AGM DOCUMENTATION TO SHAREHOLDERS (E2.4)

The 2017 AGM of TUI AG was held on 14 February 2017. As required by German law, the notice convening TUI AG's 2017 AGM (including the agenda and the voting proposals of the Executive Board and the Supervisory Board) was published in the Federal Gazette in Germany on 4 January 2017. Shareholders then had the right under German law to request additional agenda items at any time up to 30 days before the AGM. In accordance with German practice, once this deadline had expired the combined invitation and explanatory notes relating to the AGM were sent to shareholders on 19 January 2017, which was less than the 20 working days before the AGM recommended in the UK Code (but more than the 21 days' notice required by German law). However, in addition to the original publication of the Invitation in the Federal Gazette in Germany, the combined invitation and explanatory notes relating to the AGM was published on TUI AG's website on 4 January 2017. As no additional agenda items were requested by shareholders, this was in the same form as the final combined invitation and explanatory notes relating to the AGM later sent to shareholders. Furthermore, TUI AG´s Annual Report and Accounts for the financial year ending 30 September 2016 was published on 8 December 2016, significantly more than 20 working days before the 2017 AGM. Accordingly, the Executive Board and the Supervisory Board consider that TUI AG lives up to the spirit and meaning of the UK Code requirements. A similar timetable will be followed in relation to the 2018 AGM."

3. Further information on Corporate Governance

FUNCTIONING OF THE EXECUTIVE AND SUPERVISORY BOARDS

TUI AG is a company under German law. One of the fundamental principles of German stock corporation law is the dual management system involving two bodies, the Executive Board in charge of managing the company and the Supervisory Board in charge of monitoring the company. TUI AG's Executive Board and Supervisory Board cooperate closely and in a spirit of trust in managing and overseeing the Company, with strict separation between the two bodies in terms of their membership and competences. Both bodies are obliged to ensure the continued existence of the Company and sustainable creation of added value in harmony with the principles of the social market economy.

TUI AG's Executive Board comprised six members as at the closing date 30 September 2017. The Executive Board is responsible for managing the Company's business operations in the interests of the Company. The allocation of functions and responsibilities to individual Board members is presented in a separate section.

→ *For functions, see tables 'Supervisory Board and Executive Board' on page 100 et seq.*

In accordance with the law and the Articles of Association, the Supervisory Board had 20 members at the balance sheet date, i.e. 30 September 2017. The Supervisory Board advises and oversees 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. When the Executive Board takes decisions on major transactions, such as the annual budget, major acquisitions or divestments, it is required by its terms of reference to seek the approval of the Supervisory Board. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. The Supervisory Board and the Audit Committee have adopted terms of reference for their own work. In the run-up to the Supervisory Board meetings, the representatives of shareholders and employees meet separately.

The Executive Board provides the Supervisory Board at regular meetings and in writing with comprehensive, up-to-date information about the strategy, the budget, business performance and the situation of the Group, including risk management and compliance. The Executive Board works on the basis of terms of reference issued by the Supervisory Board.

TUI AG has taken out a D&O insurance policy with an appropriate deductible for all members of the Executive Board and Supervisory Board. The deductible amounts to 10 % of the loss up to the amount of one and a half times the fixed annual compensation.

COMPOSITION OF THE SUPERVISORY BOARD

As at the balance sheet date, 30 September 2017, the Supervisory Board of TUI AG comprised 20 members. The composition of the Supervisory Board in financial year 2017 ensured that its members as a group had the knowledge, ability and expert experience required to properly complete their tasks. The goals set by the Supervisory Board itself for its composition include in particular comprehensive industry knowledge, at least five independent shareholder representatives, at least five members with international experience, and diversity (see also the diversity concepts for the Supervisory Board and the Executive Board from page 110 of this report).

Twelve members of the Supervisory Board had considerable international experience. Due to the different professional experiences of its members, the composition of the Supervisory Board overall reflects a great diversity of relevant experience, ability and industry knowhow. None of the shareholder representatives on the Supervisory Board had any commercial or personal relationship with the Company, its Executive Board or third parties that might cause a material clash of interests. Seven shareholder representatives are independent (including the Chairman of the Supervisory Board, who can be included in the count according to the German Corporate Governance Code).

In accordance with the recommendations of the German Corporate Governance Code, the original shareholder representatives were individually elected for five-year terms of office during elections to the Supervisory Board at the relevant General Meetings (October 2014, February 2016). Only Prof. Klaus Mangold and Sir Michael Hodgkinson were older than 68 years when they were elected as members of the Supervisory Board. In both cases, the Supervisory Board deemed it appropriate to deviate from the regular age limit in order for the Company to benefit from Prof. Klaus Mangold's and Sir Michael Hodgkinson's extensive experience in order to complete the integration process and in order to ensure continuity. With Peter Long, a former member of the Executive Board has been a Supervisory Board member since the Annual General Meeting 2016 held on 9 February 2016.

COMMITTEES OF THE SUPERVISORY BOARD AND THEIR COMPOSITION

At 30 September 2017, the balance sheet date, the Supervisory Board had established four committees from among its members to support its work: the Presiding Committee, the Audit Committee, the Nomination Committee and the Strategy Committee. In addition, the Integration Committee existed until December 2016.

A Mediation Committee was furthermore established in accordance with section 27 (3) of the German Co-Determination Act.

The Presiding Committee and Audit Committee have eight members each, with an equal number of shareholder representatives (including the respective chairpersons of the committees) and employee representatives. The Presiding Committee prepares, in particular, the appointment of Executive Board members, including the terms and conditions of service contracts and remuneration proposals. The Audit Committee's task is to support the Supervisory Board in exercising its oversight function. The Chairman of the Audit Committee is an independent financial expert and has particular knowledge and experience in the application of accounting principles and internal control methods from his own professional practice.

The Nomination Committee consists exclusively of shareholder representatives, in keeping with the recommendation in the German Corporate Governance Code. The task of its four members is to suggest suitable candidates for the Supervisory Board to propose to the Annual General Meeting.

The Integration Committee was set up following the merger for two years. Its responsibilities were to advise and supervise the Executive Board during the integration process following the completion of the merger. The Integration Committee drafted recommendations for resolutions for the Supervisory Board, but had no authority to make decisions on behalf of the Supervisory Board. It consisted of five shareholder representatives and one employee representative. As planned, the Integration Committee had its last meeting in December 2016.

The Strategy Committee began its work after the Annual General Meeting 2016. Its task is to comprehensively advise and oversee the Executive Board in developing and implementing the corporate strategy. It prepares the annual strategy offsite meeting for the Supervisory Board, but does not have a mandate to take any decisions on behalf of the Supervisory Board. It comprises five shareholder representatives and one employee representative.

CONFLICTS OF INTEREST

Executive and Supervisory Board members have a duty to act in TUI AG's best interests. In the completed financial year 2017, there were no conflicts of interest requiring disclosure to the Supervisory Board. None of the Executive Board or Supervisory Board members has a board role or a consultancy contract with one of TUI's competitors.

SPECIFICATIONS PURSUANT TO SECTIONS 76 (4), 111 (5) OF THE GERMAN STOCK CORPORATION ACT

At least 30 % of the Supervisory Board members were women and at least 30 % were men at the balance sheet date. The Supervisory Board was therefore compliant with section 96 (2) sentence 1 of the German Stock Corporation Act. Neither the shareholder nor the employee representatives on the Supervisory Board objected to overall compliance in accordance with section 96 (2) sentence 2 of the German Stock Corporation Act.

The Supervisory Board resolved, in keeping with section 111 (5) of the German Stock Corporation Act, that until 31 October 2020 one woman is required to be a member of the Executive Board. This goal was achieved in the reporting period with Dr Elke Eller's membership in the Executive Board.

In turn, the Executive Board resolved, in keeping with section 76 (4) of the German Stock Corporation Act, that women should account for 20 % of executives at the level immediately below the Executive Board and 30 % at the level below this. Both targets were to be achieved by 30 June 2017. For this reason, TUI AG has implemented various measures over the past two years aimed at increasing the proportion of women on a long-term and sustainable basis. This includes, among other things, the promotion of women in talent programmes and specifically addressing them in the recruitment process. As a result of these measures, the proportion of women at TUI AG increased from 13 % to 19 % at the first management level below the Executive Board and from 20 % to 24 % at the second management level below the Executive Board as of 30 June 2017. At these levels, however, staff turnover is very low. As a result, the proportion of women could only be increased slowly. Despite all the measures taken, the suitability and qualification of candidates for filling vacant positions are still of primary importance. In accordance with section 76 (4) of the German Stock Corporation Act (AktG), the Executive Board confirmed the target figures for the proportion of women of 20 % at the first management level below the Executive Board and 30 % at the second management level below the Executive Board, and decided that both targets should be achieved by 30 September 2020.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

TUI AG shareholders exercise their co-determination and monitoring rights at the Annual General Meeting, which takes place at least once a year. The AGM takes decisions on all statutory matters, and these 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 Annual General Meeting. Shareholders who are not able to attend the AGM in person are entitled to have their voting rights exercised by a bank, a shareholder association, one of the representatives provided by TUI AG and acting on the shareholders' behalf in accordance with their instructions, or some other proxy of their own choosing. Shareholders also have the opportunity of authorising the representative provided by TUI AG via the web in the run-up to the AGM. Shareholders can, moreover, register for electronic dispatch of the AGM documents.

The invitation to the AGM and the reports and information 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 by the chairman of the Supervisory Board and the Executive Board members can be followed live over 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 have comprehensive general and company-specific reporting and monitoring systems available to identify, assess and manage these risks. These systems are continually developed, adjusted to match changes in overall conditions and reviewed by the auditors. The Executive Board regularly informs the Supervisory Board about existing risks and changes to these risks. The Audit Committee deals in particular with monitoring the accounting process, including reporting, the effectiveness of the internal control and risk management systems and the internal auditing system, compliance and audit of the annual financial statements.

More detailed information about risk management in the TUI Group is presented in the Risk Report. It also contains the report on the accounting-related internal control and risk management system required in accordance with the German Commercial Code (sections 289 (5), 315 (2) no. 5 HGB).

Risk Report see page 30

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 timeframes. The Company publishes press releases and ad hoc announcements, if required, on topical events and any new developments. Moreover, the company website at www.tuigroup.com provides comprehensive information on TUI Group and the TUI share.

The scheduled dates for the principal regular events and publications – such as the AGM, Annual Report and Interim Reports – are set out in a financial calendar. The calendar is published well in advance and made permanently accessible to the public on TUI AG's website.

DIRECTORS' DEALINGS

The Company was informed by Alexey Mordashov (via Sungrebe Ltd. and Unifirm Ltd.), Peter Long and David Burling of notifiable purchase and sale transactions of TUI AG shares or related financial instruments by directors (directors' dealings or managers' transactions) concerning financial year 2017. Details are provided on the Company's website.

Purchase and sales transactions by members of the boards were governed by the TUI Share Dealing Code, adopted by the Executive Board, alongside corresponding statutory provisions. The TUI Share Dealing Code stipulates above all an obligation to receive a permission for transactions with TUI AG's financial instruments.

ACCOUNTING AND AUDITING

TUI AG prepares its consolidated financial statements and consolidated interim financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The statutory annual financial statements of TUI AG, which form the basis for the dividend payment, are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared by the Executive Board, audited by the auditors and approved by the Supervisory Board. The interim report is discussed between the Audit Committee and the Executive Board prior to publication. The consolidated financial statements and the financial statements of TUI AG were audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hannover, the auditors elected by the 2017 Annual General Meeting. 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 the risk detection system and the compliance with reporting requirements on corporate governance pursuant to section 161 of the German Stock Corporation Act and Listing Rule 9.8.10.

See audit opinion by the auditors on page 242

The condensed consolidated interim financial statement and management report as at 31 March 2017 was reviewed by the auditors.

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 as well as of all findings and events of importance arising during the performance of the audit. There were no grounds to provide such information in the framework of the audit of financial year 2017.

Diversity concepts for the composition of the Executive Board and Supervisory Boards

DIVERSITY CONCEPT FOR THE COMPOSITION OF THE EXECUTIVE BOARD

The diversity concept for the composition of the Executive Board takes into account the following diversity aspects:

(a) Age
As a rule, the employment contracts of members of the Executive Board end once the standard retirement age for statutory retirement insurance has been reached (currently 67).

(b) Gender
The Executive Board should include one woman.

(c) Educational / professional background
The necessity for a variety of educational and professional backgrounds already arises from the obligation to manage the company in accordance with the law, the company's articles of association and its terms of reference. In addition, the Executive Board as a whole, through its individual members, should possess the following essential background qualities:

- management experience, some of which ideally has been acquired abroad, and intercultural competence for successful management and motivation of global teams

- in-depth practical experience in stakeholder dialogue (i.e. with managers and employees, including their representative bodies, with shareholders and the public)
- experience in IT management and an understanding of digitalisation of vertically integrated value chains
- profound experience in value-driven, KPI-based strategy development and implementation and corporate governance
- profound knowledge of the intricacies and requirements of the capital market (shareholder management)
- knowledge of accounting and financial management (controlling, financing)
- in-depth understanding of and experience with change management.

GOALS OF THE DIVERSITY CONCEPT FOR THE COMPOSITION OF THE EXECUTIVE BOARD

The standard retirement age on the one hand enables incumbent members of the Executive Board to contribute their professional and life experience for the good of the company for as long a time as possible. On the other hand, adherence to the standard retirement age is intended to promote regular rejuvenation of the board.

Inclusion of both genders in Executive Board work is on the one hand an expression of the conviction of the Supervisory Board that mixed-gender teams lead to the same or better outcomes as teams with representation from only one gender. But it is also the logical continuation of the gender diversity measures implemented by the Executive Board within the wider company, which aim to increase the proportion of women in leadership roles. These measures are only to be applied and implemented in a credible manner if the Executive Board does not consist solely of male members ('proof of concept').

A variety of professional and educational backgrounds is necessary on the one hand to properly address the tasks and obligations of the law, the company's articles of association and its terms of reference. In addition, it is the view of the Supervisory Board that they are a guarantee of ensuring diverse perspectives on the challenges and associated approaches to overcoming them that are faced in the day-to-day work of the company. International management experience is of particular importance. Without such skill and experience with integrating, leading and motivating global teams, it is impossible to take into consideration the different cultural backgrounds of managerial staff and the workforce as a whole.

METHOD OF IMPLEMENTATION OF THE DIVERSITY CONCEPT FOR THE COMPOSITION OF THE EXECUTIVE BOARD

A key aspect of applying the diversity concept to the composition of the Executive Board is inclusion of the Supervisory Board within the corporate organisation, as is prescribed by law, the company's articles of association and its terms of reference. This ensures the Supervisory Board is familiar with the strategic, economic and actual situation of the company.

In its role as overseer of the management of the Executive Board, the Supervisory Board of TUI AG makes decisions on the allocation of business responsibilities within the Executive Board, appointments to the Executive Board and thus also workforce and succession planning within the Executive Board. As part of that workforce and succession planning, the Presiding Committee or the Supervisory Board itself regularly meets with the Executive Board or its members to discuss suitable internal succession candidates for Executive Board positions (emergency, medium-term and long-term scenarios). As part of these Supervisory Board and Committee meetings, or in preparation for them, members of the Supervisory Board have the opportunity to meet up with so-called high potentials within the Group in a professional and personal setting. The Presiding Committee and Supervisory Board make their own deliberations about these matters and also discuss them in the absence of the Executive Board. This includes evaluation and possible inclusion of external candidates for Executive Board positions in the selection process. In all of these deliberations, the above-mentioned diversity aspects of Executive Board appointments play a part in the decision-making of the Supervisory Board. The Supervisory Board also asks the Executive Board to report twice a year on current progress and implementation of family-friendly concepts (e.g. flexible work times and locations via, for instance, video- conferencing, part-time options, cultural change) and concrete measures for promotion of women (e.g. at least one woman on the final shortlist for any new or replacement appointments to roles within the senior leadership team).

RESULTS ACHIEVED IN FINANCIAL YEAR 2017

With effect from 1 January 2017, Mr Frank Rosenberger was appointed (deputy) member of the Executive Board. The Supervisory Board resolved on 12 May 2017 a three-year extension of the appointment of Mr Sebastian Ebel. In addition, the appointments of Dr Elke Eller and Mr David Burling were extended for a further three years each by the respective Supervisory Board resolutions and the signing of the corresponding contracts in December 2017 (see overview of the Executive Board on page 102). It is the view of the Supervisory Board that Mr Rosenberger, Mr Ebel, Mr Burling and Dr Eller, by virtue of their diverse professional histories and individual backgrounds, will contribute to the diversity of the Executive Board. For anyone interested in further information, the CVs of these and all other members of the Executive Board are available on the company website, as well as further details communicated about the appointment decisions of the Supervisory Board.

DIVERSITY CONCEPT FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The diversity concept for the composition of the Supervisory Board takes into account the following diversity aspects: The terms of reference of the Supervisory Board of TUI AG stipulate a standard age limit of 68 for elections to the Supervisory Board. Furthermore, the Supervisory Board has determined a standard limit for membership of the Supervisory Board in accordance with the recommendation in point 5.4.1.(3) of the German Corporate Governance Code. As well as the statutory gender quota (section 96(2)(1) of the German Stock Corporation Act, (AktG) the Supervisory Board has set itself further goals in relation to its composition. These include e. g. the kind of international character and sector experience that diverse educational and professional backgrounds provide. Application of the law about the codetermination rights of employees also contributes greatly to ensuring diverse educational and professional backgrounds within the Supervisory Board of TUI AG.

GOALS OF THE DIVERSITY CONCEPT FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board is convinced that the diversity of its own composition sends an important signal both inside and outside the company. The age limit and standard membership term have the goal on the one hand of finding and retaining suitable candidates. Members of the board must possess sufficient professional experience and personal suitability for the position and have the necessary time available to perform the role. After familiarisation with the business model and the peculiarities of a vertically integrated company, the Supervisory Board considers the stability of board composition in the sense of continuity of corporate development to be equally important. On the other hand, the Supervisory Board should be looking at new approaches and new ideas on a regular basis, in order to further the continual development of the company and the business model. The Supervisory Board considers the age limit and standard membership term to be worthwhile instruments for achieving both goals.

Other goals in relation to composition (including international character and sector experience) reflect the demands placed on the advisory and oversight body and its role within a globally active Group of companies operating in a challenging competitive environment. Multicultural and international experience of corporate integration is equally as important for this as knowledge of the value drivers and success levers of the sector. In all of this, the effect and cultural features of the so-called stakeholder approach of a social market economy must be taken into account, which is also ensured on the Supervisory Board by the codetermination of employee representatives.

METHOD OF IMPLEMENTATION OF THE DIVERSITY CONCEPT FOR THE SUPERVISORY BOARD

Implementation of the goals pursued by the diversity concept is assured by the anchoring of its key components in law and in the company's terms of reference as well as the requirement for a Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on Corporate Governance within the company. As far as the shareholder side of the Supervisory Board is concerned, the Nomination Committee ensures that the binding and voluntary targets for the composition of the Supervisory Board are met. As part of regularly conducted efficiency audits, the Supervisory Board also undertakes a self-evaluation process, which includes aspects of its composition.

RESULTS ACHIEVED IN FINANCIAL YEAR 2017

In the current financial year, no changes have been made to the diversity concept or the composition of the Supervisory Board. In accordance with the recommendation in point 5.4.1 (2) of the German Corporate Governance Code (version dated 7 February 2017) the Supervisory Board in its resolution of 14 September 2017 issued a competency profile for the composition of the board as a whole.

From the point of view of the Supervisory Board, there is currently no further need for action in relation to diversity. On the shareholder side, both genders are equally represented, (50:50), and in terms of the board as whole, the proportion of women of 35 % is in excess of the statutory quota. With six different nationalities represented on the Supervisory Board, its composition can be described as international. The diversity of professional and educational backgrounds of the individual members of the board is also evident from the yearly updated CVs of Supervisory Board members published on the corporate website.

Anti-corruption and anti-bribery / Compliance

TUI Group's Compliance Management System is a fundamental component in our commitment to entrepreneurial, environmental and socially responsible operations and management. It is underlined by our membership in the UN Global Compact and therefore forms an indispensable part of TUI Group's corporate culture and our corporate governance activities.

The strategic goal of TUI Group's Compliance Management System is to prevent misconduct and avoid liability risks for the Company, its legal representatives, executives and employees and protect the reputation of the Company.

COMPLIANCE MANAGEMENT SYSTEM

TUI Group's Compliance Management System is based on a risk management approach and is built around three pillars: prevention, discovery and response, which, in turn, comprise a large number of internal measures and processes.

Compliance Management Processes

PREVENTION	EXPOSURE	REACTION
• *Compliance Policies and Group Policies* • *Compliance Training* • *Compliance Communication* • *Compliance Information* • *Compliance Risk Identification and Risk Assessment*	• *Reporting* • *Leads* • *Investigations*	• *Implementation of Process Controls* • *Exchange with Management and local Compliance Officers* • *Disciplinary Measures*

TUI Group's Compliance Management System focuses on the legal sub-areas anti-corruption, competition and anti-trust law, data protection, export controls and anti-money laundering. It defines the related pilot and standard operation of the Compliance Management System and the documentation of the roles, responsibilities and processes in these areas.

The Compliance Management System applies to TUI AG and all German and foreign companies in which TUI AG directly or indirectly holds an interest of more than 50 % as well as other stakes directly or indirectly controlled by TUI AG (so-called 'managed Group companies'). Implementation of the Compliance Management System is recommended for investments not controlled by TUI AG (so-called 'non-managed Group companies').

In financial year 2016, TUI Group's Compliance Management System was subjected to a design audit by a leading auditing firm in accordance with auditing standard PS 980 published by the German Institute of Auditors. The audit confirmed that TUI Group's Compliance Management System has been designed to meet the requirements of that certification standard. In the run-up to the audit, the Group-wide Compliance Management System had been readjusted and compliance processes had been harmonised across the Group.

COMPLIANCE STRUCTURE

TUI Group's Compliance structure supports those responsible in the task of communicating the values and rules and anchoring them in the Group. It ensures that Compliance requirements are implemented throughout the Group in different countries and cultures. TUI Group's decentralised Compliance structure includes Head Compliance Officers whose role is to implement and support the requirements of Group Legal Compliance. Under the aegis of the Chief Legal Compliance Officer, Group Legal Compliance work with the decentralised Compliance Officers to perform the following tasks at different management levels:

- Raising awareness of Compliance and the technical issues allocated to Legal Compliance
- Achieving the goals of the Code of Conduct and the Compliance Rules
- Providing training
- Advising managers and employees
- Securing the necessary exchange of information
- Monitoring national and international legislative initiatives
- Providing regular quarterly reports to the Board and annual reports to the Audit Committee of the Supervisory Board

In addition, the Group has a Compliance Committee headed by the CFO and consisting of the HR Director, the Heads of Group External Affairs and Communications, Chief Legal Compliance Officer, Group Audit and representatives of the Group Works Council and the TUI Europe Forum. The committee meets on a regular basis as well as ad hoc in order to monitor implementation of the Compliance Management System and obtain reports about key indicators in this area.

COMPLIANCE CULTURE

The Compliance culture forms the basis for an appropriate, effective Compliance Management System. It reflects management's fundamental attitude and conduct and the role of the supervisory body. It is expressed in our corporate value 'Trusted', appealing to our employees' personal responsibility and their honesty and sincerity in handling customers, stakeholders and employees.

CODE OF CONDUCT/SUPPLIERS' CODE OF CONDUCT

The Code of Conduct, drawn up for the entire TUI Group, is a further embodiment of our Compliance culture and enshrines guiding principles for everyone to follow, from the Board members, executives and senior management to every Group employee. It defines minimum standards aimed at assisting our employees in their everyday work and providing orientation in conflict situations. TUI's Code of Conduct covers anti-corruption, avoiding conflicts of interest and handling invitations and gifts appropriately.

The Suppliers' Code of Conduct forms the counterpart to TUI's Code of Conduct. It details our ethical, social and legal expectations of our business partners.

Moreover, business partners are required by contract to observe all national and international anti-corruption laws applicable to the supplier relationship. This places our business relationship with our partners on a solid legal and social basis.

COMPLIANCE RULES

In addition, the principles set out in the Code of Conduct are detailed in various policies and rules reflecting the legal requirements. This is supported by our Group-wide policy management, developing the standards for Group-wide policies and coordinating incorporation of the relevant internal stakeholder groups, e. g. other departments or the works council. This approach is designed to provide TUI Group with a set of policies which are as complete and comprehensible as possible without seeking overregulation. TUI Group's Compliance Rules offer guidance on appropriate conduct regarding gifts and invitations, data protection and compliance with trade sanctions. All groups of employees have thus been acquainted with policies of relevance to their everyday work.

COMPLIANCE RISK ANALYSIS

In the financial year under review, the Compliance Programme focused on various issues including anti-corruption measures, protecting free and fair competition, data protection and the handling of trade sanctions including anti-money laundering. A software is used, above all for the above topics, to facilitate risk identification based on self-disclosure by TUI Group companies, with risks evaluated according to likelihood of occurrence and potential damage (including reputational damage). The results of the self-assessment are discussed with the companies affected and are included in a Group-wide risk evaluation process. The results of the compliance risk identification process are used to derive corresponding risk-minimising measures, which are included in the annual plan of Group Legal Compliance and agreed with the relevant bodies. Monitoring of the implementation of the measures is automated.

Risk analysis and prevention also includes the annual survey among 1,570 legal representatives and executives of TUI Group to identify potential clashes of interests. In the framework of the survey, they have to provide information on any interests held in TUI Group competitors or key business partners as well as other issues of relevance to Compliance. The survey carried out in the financial year under review was completed by 98.3 % of the respondents. No indications were found suggesting that there were any conflicts of interests.

PREPARATIONS FOR THE EU GENERAL DATA PROTECTION REGULATION (GDPR)

In the run-up to the EU GDPR, data protection, which was already a key priority for TUI Group, was intensified further in the financial year under review. Many measures were initiated, e. g. the structured coordination of all data protection specialist functions within the Company and the appointment of Data Protection Officers in nearly all relevant TUI Group companies (data protection governance).

COMPLIANCE TRAINING

Compliance training is a key element of TUI's Compliance Management System, with its focus on preventing misconduct, and a crucial component of TUI Group's Compliance culture. It is carried out according to a graded concept: managers and staff at TUI have all benefited from face-to-face teaching and online programmes. This enables all our executives and employees to acquaint themselves with Compliance and the underlying corporate values, regardless of their position in the company hierarchy and their geographical location. In the completed financial year, the online training programme was extended to include a refresher course on TUI's Code of Conduct, which has since been rolled out in the Group companies. In addition, TUI companies and sectors offered training schemes with their own specific focus, e. g. anti-corruption or appropriate handling of gifts and invitations, to raise awareness of the challenges they might face.

WHISTLEBLOWER SYSTEM

In agreement with various stakeholder groups TUI offers its managers and employees a Group-wide whistleblower system to enable serious infringements of the corporate values anchored in TUI's Code of Conduct to be reported anonymously and without reprisals. This whistleblowing system is currently available to staff in 47 countries. All reports are followed up in the interests of all stakeholders and the Company. Our top priority is to ensure confidentiality and handle information discreetly. Any incidents resulting from the use of the whistleblower system are reviewed by Group Legal Compliance in conjunction with Group Audit. Infringements are fully investigated in the interests of all our staff and the Company itself.

In the completed financial year, a total of 57 reports were received through the SpeakUp Line. Apart from the SpeakUp Line, employees also used the opportuity to directly report infringements to their line managers or the Compliance contact in charge. A further 33 reports were received through these channels. They were followed up whenever there were any indications suggesting potential infringements of internal policies or the law. Out of the 90 reports submitted in total, 49 cases initially involved a suspected Compliance infringement, causing further investigations which in 16 cases resulted in disciplinary measures all the way to terminations of employment contracts.

In the financial year under review, there were no infringements of a severe nature that would have given rise to a publication of such infringement.

BUSINESS PARTNER REVIEW (DUE DILIGENCE PROCESSES)

The risk analysis carried out by Compliance shows that there is a risk of active and passive corruption because we operate in countries with a high corruption index. Moreover, the risk of TUI business partners being subject to trade sanctions or similar sanctions lists cannot be ruled out.

TUI Group therefore carries out software-based screenings of selected business partners at regular intervals. The process involves checking the names of the business partners against international sanctions, terrorist and wanted persons lists. In the event of a match, we launch a range of measures, in extreme cases terminating the business relationship.

In financial year 2017, we used this process to check around 26,500 business partners against Compliance criteria. The screening software initially flagged 1,258 of these business partners as potential 'hits' as their names were identical with or similar to names included in sanctions lists. These potential 'hits' were then further investigated. Ultimately, the business organisation cooperating with the corresponding business associates was informed in two cases, and in one case the business relationship was terminated.

Remuneration Report

A. Introduction

The remuneration report outlines the remuneration of the members of the Executive Board of TUI AG as well as the remuneration of the members of its Supervisory Board in accordance with the articles of association. The remuneration report is based, in particular, on the recommendations of the German Corporate Governance Code (GCGC), the requirements of the German Commercial Code (Handelsgesetzbuch) and the German Stock Corporation Act (Aktiengesetz) and, to the extent practicable, the requirements of the UK Corporate Governance Code (UK-CGC).

TUI AG is a German stock corporation that is also listed on the London Stock Exchange (LSE). Where mandatory provisions regarding the governance of or legal requirements for a German stock corporation are affected, these are disclosed in this report and placed in context with the UK-CGC, as required.

B. Remuneration of the Executive Board

I. APPROVAL OF THE REMUNERATION SCHEME BY SHAREHOLDERS

A new remuneration scheme was proposed for Executive Board members in financial year 2010 and approved by the shareholders of TUI AG at the Annual General Meeting on 17 February 2010. The scheme is designed to create incentives for sustained growth and robust financial performance in the TUI Group.

Although common practice at many of the companies applying the UK-CGC, the shareholders of TUI AG do not vote on the remuneration policy on an annual basis. This also reflects the practice at most German stock corporations and is in compliance with the German Stock Corporation Act.

II. GENERAL PRINCIPLES

Following a recommendation from the Presiding Committee, the Supervisory Board determines in accordance with section 87(1) sentence 1 German Stock Corporation Act the remuneration of the individual Executive Board members. It also regularly reviews the remuneration scheme for the Executive Board.

→ *For further remits of the Presiding Committee, please see the report of the Supervisory Board from page 12*

The following principles, in particular, are taken into account in this regard:

- Clarity and transparency
- Economic position, performance and sustainable development of the company
- Tying shareholder interest to value increase and distribution of profits (e.g. total shareholder return indicator) with corresponding incentives for Executive Board members
- Ability to be competitive on the market for highly qualified Executive Board members
- Appropriateness and conformity with tasks, responsibilities and success of each individual Executive Board member, including in the relevant environment of comparable international firms, and taking into account standard practice at other major German companies
- Tying a material portion of total remuneration to the achievement of ambitious, long-term performance targets
- Appropriate correlation between the levels of fixed remuneration and performance-based remuneration
- Appropriateness in horizontal and vertical comparison (see page 126)

The remuneration scheme does not contain any malus or clawback terms. This position will continue to be monitored.

III. REMUNERATION OF THE EXECUTIVE BOARD IN FINANCIAL YEAR 2017

In financial year 2017, the remuneration for the members of the Executive Board comprises: (1) a fixed remuneration; (2) an annual performance-based remuneration (Jahreserfolgsvergütung – JEV); (3) virtual shares of TUI AG in accordance with the Long-Term Incentive Plan (LTIP); (4) fringe benefits; (5) pension entitlements; and (6) a potential additional remuneration in cash or in virtual shares (additional remuneration).

Details are set out below:

1. FIXED REMUNERATION

Purpose and link to company strategy

Highly-qualified Executive Board members who are needed to develop and implement company strategy are to be attracted and retained.

The remuneration should be commensurate with the abilities, experience and tasks of the individual Executive Board member.

Procedure

In determining the fixed remuneration the Supervisory Board takes into account, in particular, the relevant general principles.

The fixed remuneration is paid in twelve equal instalments at the end of each month. If the service agreement begins or ends in the course of the financial year relevant for payment of the remuneration, the fixed annual remuneration will be paid pro rata for that year.

The remuneration is generally reviewed when service agreements of Executive Board members are extended, and can be adjusted or revised for the term of the new service agreement. A review of the remuneration can also take place during the term of a service agreement in particular if there is a change with respect to the tasks or responsibility of an Executive Board member.

2. ANNUAL PERFORMANCE-BASED REMUNERATION (JEV)

Purpose and link to company strategy

The JEV is intended to motivate Executive Board members to achieve ambitious and challenging financial, operational and strategic targets throughout the financial year. The targets are reflective of the company strategy and aimed at increasing corporate value.

Procedure

The JEV is calculated on the basis of a group performance indicator and the individual performance of the Executive Board member. The performance reference period is the financial year of TUI AG.

An individual target amount (Target Amount) is agreed for each Executive Board member in their service agreement. Since 1 October 2010 the performance target has been the reported earnings before interest, tax and amortisation of goodwill (Reported Group EBITA). The target value for the one-year performance reference period for the reported group EBITA performance target is set each year by the Supervisory Board.

To measure performance, the target value will be compared with the corresponding actual value of the reported group EBITA as reported in the audited consolidated accounts of TUI AG to be prepared in accordance with the accounting rules in force at the time. The degree of target achievement is determined as follows:

- If the actual value of the reported group EBITA achieved is below the target value by 50 % or more, this is equivalent to a target achievement of 0 %
- If the value achieved corresponds to the target value, this is equivalent to a target achievement of 100 %
- If the value achieved exceeds the target value by 50 % or more, this is equivalent to a target achievement of 187.5 %

Between 50 % below target value and target value, linear interpolation between 0 % and 100 % will be used to determine the degree of target achievement. Between target value and 50 % above target value, linear interpolation between 100 % and 187.5 % will be used to determine the degree of target achievement. The degree of target achievement will be rounded to two decimal places, as is customary in commercial practice.

At the discretion of the Supervisory Board, the degree of target achievement for the performance target can be multiplied by a factor of between 0.8 and 1.2, based on the Executive Board member's achievement of individual performance targets and other performance indicators such as customer satisfaction and / or employee satisfaction metrics.

The value resulting from the multiplication of the target amount by the degree of target achievement for the reported group EBITA and the discretionary multiplier will be paid out in cash in the month in which the Supervisory Board approves the annual accounts of TUI AG for the respective financial year. If the service agreement begins or ends in the course of the relevant financial year, the claims for payment of the JEV will generally be pro rata.

Cap

The JEV is capped annually and individually for each Executive Board member; for the figures, see the table on page 121.

In accordance with section 87(1) sentence 3 German Stock Corporation Act, the Supervisory Board is entitled to limit the amount of the JEV to allow for extraordinary circumstances (e. g. takeover of the company, sale of parts of the company, uncovering of hidden reserves, external influences).

3. VIRTUAL SHARES ACCORDING TO THE LONG-TERM INCENTIVE PLAN (LTIP)

3.1 CALCULATION METHOD

Purpose and link to company strategy

The long-term objective is to increase corporate and shareholder value by defining ambitious goals that are closely linked to the company's earnings, share price performance and dividends.

Procedure

The LTIP is a performance share plan based on virtual shares and is assessed over a period of four years (Performance Reference Period). Virtual shares are granted in annual tranches,

For Executive Board members, an individual target amount (Target Amount) is agreed in the service agreement. At the beginning of each financial year a provisional number of virtual shares, commensurate with the target amount, will be set. This will constitute the basis for the determination of the final performance-based payment for the tranche in question at the end of the respective performance reference period. To set this number, the target amount will be divided by the average Xetra price of TUI AG shares over the 20 trading days prior to the beginning of the performance reference period (1 October of each year). The claim to a payment only arises upon expiry of the performance reference period and depends on whether or not the respective performance target is achieved.

The performance target for determining the amount of the final payout at the end of the performance reference period is the development of the total shareholder return (TSR) of TUI AG relative to the development of the TSR of the Dow Jones Stoxx 600 Travel & Leisure (Index), whereby the ranking of the TUI AG TSR in relation to the index companies will be monitored over the entire performance reference period. The TSR is the aggregate of all share price increases plus the gross dividends paid over the performance reference period. Data from a reputable data provider (e. g. Bloomberg, Thomson Reuters) will be used for the purpose of establishing the TSR values for TUI AG and the index. The reference for the purpose of determining the rankings is the composition of the index on the last day of the performance reference period. The values for companies that were not listed over the entire performance reference period will be factored in on a pro rata basis. The level of target achievement is established as follows depending on the ranking of the TSR of TUI AG relative to the TSR values of the index companies over the performance reference period:

- a TSR value of TUI AG equivalent to the bottom and second to bottom value of the index corresponds to a target achievement of 0 %
- a TSR value of TUI AG equivalent to the third to bottom value of the index corresponds to a target achievement of 25 %
- a TSR value of TUI AG equivalent to the median of the index corresponds to a target achievement of 100 %
- a TSR value of TUI AG equivalent to the third to top, second to top or top value of the index corresponds to a target achievement of 175 %

For performance between the third to bottom and the third to top rank, linear interpolation will be used to determine the level of target achievement at between 25 % and 175 %. The degree of target achievement will be rounded to two decimal places, as is customary in commercial practice.

To determine the final number of virtual shares, the degree of target achievement will be multiplied by the provisional number of virtual shares on the final day of the performance reference period. The payout is determined by multiplying the final number of virtual shares by the average Xetra price of TUI AG shares over the 20 trading days prior to the end of the performance reference period (30 September of each year). The payout which is calculated in this way will be due in the month of the approval of the annual accounts of TUI AG for the fourth financial year of the performance reference period and is paid out in cash. If the service agreement begins or ends in the course of the financial year relevant for the grant of the LTIP, the claims for payment of the same will generally be pro rata.

Cap

The LTIP is capped annually and individually for each Executive Board member; for the figures, see the table on page 121.

3.2 DEVELOPMENT OF AGGREGATE VIRTUAL SHARES OF CURRENT EXECUTIVE BOARD MEMBERS IN FINANCIAL YEAR 2017

On 30 September 2017, former Executive Board members held no virtual shares in TUI AG (previous year: no virtual shares) that were granted after the merger of TUI AG and TUI Travel PLC (TUI Travel) in December 2014 (the Merger).

	Number
Granting in financial year 2017	
Friedrich Joussen	119,741
Horst Baier	54,612
David Burling	40,453
Sebastian Ebel	40,453
Dr Elke Eller	33,981
Frank Rosenberger	18,204
Decrease in financial year 2017*	
Friedrich Joussen	56,164
Horst Baier	53,743

* Decrease corresponds to amounts paid for LTIP-tranches that ended in financial year 2017 (see table on remuneration paid acc. to DCGK)

3.3 EXPENDITURE FOR THE LTIP OF CURRENT EXECUTIVE BOARD MEMBERS ACC. TO IFRS 2

Expenditure for granting of virtual shares in financial year 2017 acc. to IFRS 2

€ '000	**Part of total expenditure FY 2017**	Part of total expenditure FY 2016
Friedrich Joussen	1,830.0	4,364.9
Horst Baier	495.1	2,954.4
David Burling	296.2	418.2
Sebastian Ebel	381.3	608.8
Dr Elke Eller	252.4	242.8
Frank Rosenberger	238.3	
Total	**3,493.2**	**8,589.1**

The table shows the individual amounts of the total expenditure arising from the addition to the provisions to be formed pro rata acc. to IFRS 2 for all of the LTIP tranches to be granted during the term of the respective service agreements. Acc. to IFRS 2, there are provisions totalling € 8,585.0 thousand (previous year: € 6,693.1 thousand) to cover entitlements under TUI AG's LTIP for current Executive Board members.

Acc. to the German Commercial Code, there are provisions totalling € 4,625.8 thousand (previous year: € 3,299.2 thousand) for LTIP tranches currently in the lock-up period.

There are liabilities in accordance with IFRS and the German Commercial Code totalling € 1,604.6 thousand (previous year: € 1,896.0 thousand).

4. FRINGE BENEFITS

Purpose and link to company strategy

Fringe benefits offered should be competitive on the market for highly qualified Executive Board members.

Procedure

Executive Board members receive the following fringe benefits:

- Reimbursement of business travel expenses in accordance with TUI AG's applicable general business travel guidelines
- Twice a year, free of charge, a holiday from within the World of TUI range, without any limitation as to tour operator, type of holiday, category or price. Spouses / partners are granted a 50 % discount on the catalogue price for the aforementioned vacations, and children still in education or training a 100 % discount. Apart from that, a reduction of 75 % (spouses / partners children still in education or training 50 %) is granted for flights
- A suitable company car with driver or alternatively a car allowance of € 1.5 thousand gross per month
- Insurance cover is provided in line with the agreements applicable in Germany and the United Kingdom. This is offered as follows:

TUI AG provides insurance cover for accidents to the customary extent for Mr Joussen, Dr Eller, Mr Baier, Mr Ebel and Mr Rosenberger and will pay the corresponding insurance contributions for the terms of their service agreements. The coverage amounts to € 1,500.0 thousand for death and € 3,000.0 thousand for disablement. Furthermore, Mr Joussen, Dr Eller, Mr Baier, Mr Ebel and Mr Rosenberger receive an allowance towards health and long-term care insurance in the amount payable if the respective Executive Board member were an employee, but no more than half of each insurance premium.

Insofar as this is permitted by law, Mr Burling will remain a beneficiary, at the expense of TUI AG, of the UK term life, vocational disability and health insurance programmes.

TUI AG also takes out criminal law protection insurance that provides cover for the Executive Board members regarding criminal and misdemeanour proceedings, if these proceedings are based on an act or a failure to act in the exercise of their duties for TUI AG. TUI AG also takes out a suitable financial liability insurance policy (D&O insurance) coverage for the Executive Board members to cover possible claims brought under private law on the basis of statutory liability provisions against one or more of the Executive Board members by a third party or the company for damages for a breach of duty committed in the exercise of their duties. The D&O insurance provides for a deductible of 10 % of the damage up to 150 % of the fixed annual remuneration.

Amount

The value of the company car, free holidays and insurance benefits received annually by an individual Executive Board member normally does not exceed € 150.0 thousand. The fringe benefits are taken into account within the scope of the maximum remuneration listed on page 121.

5. PENSION BENEFITS

5.1 OPERATING PRINCIPLES

Purpose and link to company strategy

Highly-qualified Executive Board members who are needed to develop and implement company strategy are to be acquired and retained.

The pension benefits should be competitive on the market for highly qualified Executive Board members and should provide them with a corresponding level of benefits in their retirement.

Procedure

Benefits in the form of pensions are paid to former Executive Board members if they reach the predefined age limit or are permanently incapacitated. The Executive Board members are not entitled to receive transition payments upon leaving the Executive Board, with the exception of Mr Ebel who has an acquired right to receive transition payments under a legacy contract.

With regard to pension entitlements, different principles apply to Mr Joussen, Dr Eller, Mr Baier, Mr Ebel and Mr Rosenberger on the one hand and Mr Burling on the other hand due to the legacy systems in Germany and the UK.

Mr Joussen, Dr Eller, Mr Baier, Mr Ebel and Mr Rosenberger are entitled to pensions according to the pension commitments granted to Executive Board members of TUI AG (TUI AG Pension Scheme). These Executive Board members receive, on an annual basis, a contractually agreed amount that is paid into an existing pension account for the respective Executive Board member. The contributions to the company pension scheme of Mr Joussen, Dr Eller, Mr Baier and Mr Ebel carry an interest rate established in the pension commitment. The interest rate stands at 5 % p.a. The annual interest for Mr Rosenberger's contributions to the company pension scheme is established by the company at its reasonable discretion in such a way that it does not exceed 5 %. The beneficiary may choose between a one-off payment, payment by instalments or pension payments. The amounts agreed on in the service agreements of the aforementioned Executive Board members are:

- Mr Joussen: € 454.5 thousand per year. Mr Joussen becomes eligible for payment of the pension upon reaching the age of 62
- Dr Eller: € 230.0 thousand per year. Dr Eller becomes eligible for payment of the pension upon reaching the age of 63
- Mr Baier: € 267.75 thousand per year. Mr Baier becomes eligible for payment of the pension upon reaching the age of 60
- Mr Ebel: € 207.0 thousand per year. Mr Ebel becomes eligible for payment of the pension upon reaching the age of 62
- Mr Rosenberger: € 112.5 thousand per year in financial year 2017. This amount takes into account Mr Rosenberger having taken up office on 1 January 2017. Mr Rosenberger becomes eligible for payment of the pension upon reaching the age of 63

Should Mr Joussen, Dr Eller, Mr Baier, Mr Ebel and Mr Rosenberger retire from TUI AG before the normal retirement date due to an ongoing occupational disability, they will receive an occupational disability pension until they are able to work again, but at most until they reach the normal retirement date.

Under certain circumstances, spouses, partners or cohabitants of the Executive Board members will, should the respective Executive Board member die, receive a survivor's pension worth 60 % of the pension for their lifetime or until remarriage. Children of Executive Board members will, should the respective Executive Board member die, receive an orphan's pension, paid no longer than until they reach the age of 27 at the latest. Children who have lost one parent will receive 20 % of the pension, and those who have lost both parents will receive 25 %. This claim is subject to the prerequisite that the child meets the requirements set out in section 32(3), (4), sentence 1 nos. 1 to 3 and (5) German Income Tax Act (Einkommensteuergesetz).

Mr Burling receives a fixed annual amount of € 225.0 thousand paid out in cash for his pension.

5.2 PENSION PROVISIONS FOR THE CURRENT EXECUTIVE BOARD MEMBERS UNDER THE TUI AG PENSION COMMITMENTS

At 30 September 2017, pension obligations for current Executive Board members totalled € 19,731.2 thousand (previous year balance sheet date: € 19,055.8 thousand) according to IAS 19. This includes € 4,501.3 thousand (previous year balance sheet date: € 5,317.8 thousand) for claims earned by Mr Ebel during the course of his work for the TUI Group up until 31 August 2006. The remaining claims can be broken down as follows:

Pension of current Executive Board members below TUI AG Pension scheme

	Addition to / reversal from pension provision		Net present value	
€ '000	**2017**	2016	**30 Sep 2017**	30 Sep 2016
Friedrich Joussen	200.0	1,130.2	3,206.9	3,006.9
Horst Baier	89.7	966.8	9,109.8	9,020.1
Sebastian Ebel	118.7	490.7	1,394.1	1,275.4
Dr Elke Eller	277.6	435.6	713.2	435.6
Frank Rosenberger	805.9	0.0	805.9	0.0
Total	**1,491.9**	**3,023.3**	**15,229.9**	**13,738.0**

According to commercial law provisions, the pension obligations for current Executive Board members amounted to € 15,738.4 thousand (previous year balance sheet date: € 13,404.8 thousand); this includes € 2,925.0 thousand (previous year balance sheet date: € 2,659.6 thousand) for claims earned by Mr Ebel during the course of his work for the TUI Group up until 31 August 2006.

Where the above table shows a corresponding amount, the pension obligations for beneficiaries are funded via the conclusion of pledged reinsurance policies.

6. POTENTIAL ADDITIONAL REMUNERATION IN CASH OR IN VIRTUAL SHARES (ADDITIONAL REMUNERATION)

Purpose and link to company strategy

The additional remuneration is intended to compensate exceptional performance by Executive Board members.

Procedure

The Supervisory Board may grant additional remuneration in cash or in virtual shares in the case of special circumstances or exceptional performance such as an extraordinarily heavy workload due to major projects like transactions or the long-term takeover of other Executive Board departments, in the case of special successes in connection with the strategic further development of the business model as well as successful crisis management. The Supervisory Board determines whether and in what amount such additional remuneration will be paid.

Cap

The additional remuneration is capped annually and individually for each Executive Board member; for the figures, see table below.

7. REMUNERATION CAPS

The following caps apply to the remuneration (remuneration components and total remuneration) payable to Executive Board members for a financial year:

Remuneration caps

€ '000	Fixed remuneration[2]	JEV	LTIP	Additional remuneration	Maximum total remuneration[3]
Friedrich Joussen	1,100.0	2,070.0	4,440.0	920.0	7,500.0
Horst Baier	740.0	1,012.5	2,025.0	450.0	4,200.0
David Burling	600.0	900.0	1,500.0	400.0	3,450.0
Sebastian Ebel	680.0	720.0	1,500.0	320.0	3,380.0
Dr Elke Eller	680.0	675.0	1,260.0	300.0	3,100.0
Frank Rosenberger[1]	500.0	630.0	900.0	280.0	1,875.0

1 Full-year values (12 months), possibly pro rated caps: see table on p. 123
2 Fixed amount, no cap applied
3 Contractually agreed cap for total remuneration (incl. fixed remuneration, JEV, LTIP, pension, additional remuneration and fringe benefits)

IV. PAYMENTS IN CASE OF PREMATURE DEPARTURE OF AN EXECUTIVE BOARD MEMBER

The payments to be made to an Executive Board member on the premature termination of his service agreement without good cause have in principle been limited in the service agreements of Messrs. Joussen and Baier to an amount equal to twice their annual remuneration. It has been agreed in the service agreements of Dr Eller, Mr Ebel, Mr Burling and Mr Rosenberger that payments to be made on the premature termination of their Executive Board membership without good cause may not – in the case of premature termination during the first year after the coming into force of the service agreement – exceed an amount equal to twice their annual remuneration and – in the case of premature termination after the end of the first year of the service agreement – an amount equal to their annual remuneration (severance pay cap). Payments upon premature termination shall not cover more than the remaining term of the service agreement for any member of the Executive Board. The severance pay cap is calculated on the basis of the target direct remuneration (fixed remuneration, target JEV and target LTIP) for the last expired financial year and, if relevant, the expected target direct compensation for the current financial year. If the service agreement is terminated extraordinarily without notice, no payments will be made to Executive Board members.

In cases of premature termination of the service agreement, the annual performance-based remuneration (JEV) and payments according to the LTIP will be managed as follows:

- JEV
  - If the company terminates the service agreement without notice before the end of the one-year performance reference period for good cause attributable to the beneficiary or if the beneficiary terminates the service agreement without good cause, the claim to the JEV for the performance reference period in question will be forfeited and no alternative remuneration or compensation will be paid.
  - In all other cases of premature termination of the service agreement before the end of the one-year performance reference period, the JEV will be paid on a pro rata basis.

- LTIP:
  - If the company terminates the service agreement without notice before the end of the respective performance reference period for good cause attributable to the Executive Board member, or if the Executive Board member terminates the service agreement without good cause, all claims under the LTIP will lapse for all tranches not yet paid and no alternative remuneration or compensation will be paid.
  - If the service agreement ends before the expiry of the performance reference period for other reasons, the claims under the LTIP will be maintained for tranches not yet paid. The tranche of the current financial year will be reduced on a pro rata basis. The payout will be calculated in the same way as in the case of a continuation of the service agreement.

The service agreements of the Executive Board members do not contain change of control clauses.

V. OTHER PAYMENTS/BENEFITS FOR EXECUTIVE BOARD MEMBERS WHO LEFT THE BOARD IN FINANCIAL YEAR 2017

No members left the Executive Board of TUI AG in financial year 2017, so no benefits were granted or paid out.

VI. PENSION PAYMENTS MADE TO PAST EXECUTIVE BOARD MEMBERS

In financial year 2017, the pension payments to former Executive Board members and their surviving dependants totaled € 13,497.1 thousand (previous year: € 4,933.2 thousand).

Pension provisions for former members of the Executive Board and their dependants amounted as at the balance sheet date to € 64,683.5 thousand (previous year: € 78,976.5 thousand) as measured according to IAS 19, not including Mr Ebel's claims in the amount of € 4,501.3 thousand (previous year: € 5,317.7 thousand) which he earned before 31 August 2006 during the course of his work for the TUI Group.

According to commercial law provisions, the pension obligations for former members of the Executive Board and their dependants amounted to € 55,074.1 thousand (previous year: € 62,846.3 thousand), not including Mr Ebel's claims in the amount of € 2,925.0 thousand (previous year: € 2,659.6 thousand) which he earned before 31 August 2006 during the course of his work for the TUI Group.

VII. OVERVIEW: INDIVIDUAL REMUNERATION OF EXECUTIVE BOARD MEMBERS

1. INDIVIDUAL REMUNERATION OF EXECUTIVE BOARD MEMBERS FOR FINANCIAL YEAR 2017 (PURSUANT TO SECTION 314(1), NO. 6(A) GERMAN COMMERCIAL CODE)

Remuneration of individual Executive Board members granted by TUI AG for financial year 2017 (acc. to section 314, paragraph 6 lit a of the German Commercial Code)

€ '000	Fixed remuneration[1]	JEV	Additional remuneration	LTIP[5]	**Total 2017**	Total 2016
Friedrich Joussen	1,232.3	1,096.0	920.0	0.0	3,248.3	3,035.6
Horst Baier	760.0	536.1	450.0	0.0	1,746.1	1,890.5
David Burling	707.9	476.5	400.0	0.0	1,584.4	1,463.9
Sebastian Ebel[2]	698.0	381.2	320.0	1,500.0	2,899.2	1,355.5
Dr Elke Eller	714.3	357.4	300.0	0.0	1,371.6	2,552.3
Frank Rosenberger[3]	416.4	250.2	210.0	1,389.5	2,266.0	0.0
Total	**4,528.8**	**3,097.4**	**2,600.0**	**2,889.5**	**13,115.7**	
Previous year[4]	4,942.8	3,319.2	2,569.6	1,269.9	12,101.5	

1 Incl. fringe benefits (without insurances under Group coverage).
2 Disclosure of LTIP due to prolongation of service agreement until 30 November 2020
3 Pro rated disclosure of all remuneration components from 1 January 2017
4 Previous year's values include remuneration of Peter Long and William Waggott
5 Based on share price of the TUI AG share as at 4 October 2016 this corresponds for Mr Ebel to 116,369 virtual shares and for Mr Rosenberger to 107,797 virtual shares.

For the purpose of setting the discretionary multiplier of between 0.8 and 1.2 used to calculate the JEV (procedure description see page 117) and the additional remuneration (procedure description see page 120) the Supervisory Board exercises its discretion within the framework of the service agreements of the members of the Executive Board.

The basis for the Supervisory Board's decision regarding the discretionary multiplier for calculating the JEV was, among other things, the level of employee satisfaction (engagement index on Group level) determined as part of the TUIgether employee survey for the financial year 2017, which, compared with the previous financial year, remained at a consistently high level with a higher response rate. This outcome can be attributed to the fact that the members of the Executive Board have consistently implemented and achieved their own packages of measures defined on the basis of the results from the previous year, and have also steadily advanced the implementation of the measures through the management level below the Executive Board. In addition to that, the Supervisory Board also took into account, among other things, the successful introduction of the Global 60 Initiative that encourages employees to follow an international career, the huge progress in delivering a Group airline platform, and the promising efforts to initiate a solution for the German airline. The successful completion of the cultural integration as well as the realisation of synergies as a result of the merger were taken into account in the Supervisory Board's decision to set the discretionary multiplier at 1.1 when calculating the JEV for each member of the Executive Board.

In terms of the additional remuneration, the Supervisory Board considered the exceptional achievements of each and every member of the Executive Board, especially in light of the geopolitical challenges. The successful management of the shift in demand from the eastern to the western Mediterranean due to, inter alia, the consistently low level of bookings for Turkey and coupled with a significant increase in hotel prices there, is the result of an excellent board performance. Moreover, management succeeded in compensating the Brexit-related slowdown in bookings and the price hike resulting from the depreciation of the British pound in the UK source market by means of extraordinarily good results in other source markets and in particular the hotels and resorts, and cruise business units. Last but not least, the Supervisory Board's decision recognizes the clear rise in the stock price in the period under review which is the result of, among other things, the perception in the capital markets of TUI AG's business model as being stable and robust owing to the consistent and highly successful expansion of its content portal as well as the sound financing.

The LTIP amount disclosed in the table headed 'Individual Remuneration of Executive Board members for the financial year 2017' corresponds to the fair value at grant date (acc. to IFRS 2). This amount takes into account all allocations accumulated over the entire contract period. The table of the 'remuneration awarded' according to the GCGC shows the amount allocated in the respective financial year.

As in the prior year, the members of the Executive Board did not receive any loans or advances in financial year 2017.

Dr Eller received € 12.1 thousand from Nord/LB for her activities – which were approved by the Supervisory Board during her Executive Board membership in financial year 2017 – in supervisory boards or comparable domestic and foreign corporate supervisory bodies to be set up in accordance with section 125 German Stock Corporation Act, which activities were not carried out on the basis of a shareholding of TUI AG in the companies concerned. Mr Joussen acquired a claim for € 27.9 thousand for his seat on the supervisory board of SIXT SE in financial year 2017 that will become due and payable following the end of SIXT SE's financial year. This remuneration was not counted towards the remuneration paid to her by TUI AG as an Executive Board member.

Pursuant to 4.2.5, attachment tables 1 and 2 GCGC, the two tables below (remuneration awarded and remuneration paid) show the benefits granted by TUI AG and the payments received.

2. REMUNERATION AWARDED

Remuneration awarded

	Friedrich Joussen CEO, since 14 February 2013[1]				**Horst Baier** CFO, since 8 November 2007			
€ '000	2016	**2017**	2017 (min.)	2017 (max.)	2016	**2017**	2017 (min.)	2017 (max.)
Fixed remuneration	1,100.0	1,100.0	1,100.0	1,100.0	803.0	740.0	740.0	740.0
Fringe benefits	45.4	132.3	132.3	132.3	18.7	20.0	20.0	20.0
Total	**1,145.4**	**1,232.3**	**1,232.3**	**1,232.3**	**821.7**	**760.0**	**760.0**	**760.0**
JEV	920.0	920.0	–	2,070.0	450.0	450.0	–	1,012.5
Additional remuneration	920.0	920.0	–	920.0	450.0	450.0	–	450.0
LTIP	1,494.8	1,494.8	–	4,440.0	681.8	681.8	–	2,025.0
LTIP (2016–2019)	1,494.8				681.8			
LTIP (2017–2020)		1,494.8	–	4,440.0	–	681.8	–	2,025.0
Total	**4,480.2**	**4,567.1**	**1,232.3**	**8,662.3**	**2,403.5**	**2,341.8**	**760.0**	**4,247.5**
Pension/service costs[2]	726.0	625.7	625.7	625.7	22.3	–	–	–
Total remuneration[3]	**5,206.2**	**5,192.8**	**1,858.0**	**7,500.0**	**2,425.8**	**2,341.8**	**760.0**	**4,200.0**

Remuneration awarded

€ '000	David Burling Member of the Executive Board, since 1 June 2015 2016	2017	2017 (min.)	2017 (max.)	Sebastian Ebel Member of the Executive Board, since 12 December 2014 2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	600.0	600.0	600.0	600.0	680.0	680.0	680.0	680.0
Fringe benefits	42.1	107.9	107.9	107.9	18.0	18.0	18.0	18.0
Total	**642.1**	**707.9**	**707.9**	**707.9**	**698.0**	**698.0**	**698.0**	**698.0**
JEV	400.0	400.0	–	900.0	320.0	320.0	–	720.0
Additional remuneration	400.0	400.0	–	400.0	320.0	320.0	–	320.0
LTIP	505.0	505.0	–	1,500.0	505.0	505.0	–	1,500.0
LTIP (2016–2019)	505.0				505.0			
LTIP (2017–2020)	–	505.0	–	1,500.0	–	505.0	–	1,500.0
Total	**1,947.1**	**2,012.9**	**707.9**	**3,507.9**	**1,843.0**	**1,843.0**	**698.0**	**3,238.0**
Pension/service costs[2]	225.0	225.0	225.0	225.0	328.5	286.1	286.1	286.1
Total remuneration[3]	**2,172.1**	**2,237.9**	**932.9**	**3,450.0**	**2,171.5**	**2,129.1**	**984.1**	**3,380.0**

Remuneration awarded

€ '000	Dr Elke Eller Member of the Executive Board/Labour Director, since 15 October 2015 2016	2017	2017 (min.)	2017 (max.)	Frank Rosenberger Deputy member of the Executive Board, since 1 January 2017 2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	654.2	680.0	680.0	680.0		375.0	375.0	375.0
Fringe benefits	23.8	34.3	34.3	34.3		41.4	41.4	41.4
Total	**678.0**	**714.3**	**714.3**	**714.3**		**416.4**	**416.4**	**416.4**
JEV	288.6	300.0	–	675.0		210.0		472.5
Additional remuneration	300.0	300.0	–	300.0		210.0		210.0
LTIP	408.1	424.2	–	1,260.0		227.3		675.0
LTIP (2016–2019)	408.1							
LTIP (2017–2020)	–	424.2	–	1,260.0		227.3	–	675.0
Total	**1,674.8**	**1,738.5**	**714.3**	**2,949.3**		**1,063.6**	**416.4**	**1,773.9**
Pension/service costs[2]	405.0	345.1	345.1	345.1		382.6	382.6	382.6
Total remuneration[3]	**2,079.8**	**2,083.6**	**1,059.4**	**3,100.0**		**1,446.2**	**799.0**	**1,406.3**

1 Joint-CEO until 9 February 2016; member of the Executive Board since 15 October 2012
2 For Mr Joussen, Mr Baier, Mr Ebel, Mrs Dr Eller and Mr Rosenberger service acosts acc. to IAS19; for Mr Burling payment for pension contribution
3 When contractually agreed cap for total remuneration to be paid is exceeded, LTIP is reduced proportionally.

3. REMUNERATION PAID

Remuneration paid

	Friedrich Joussen CEO, since 14 February 2013[1]		**Horst Baier** CFO, since 8 November 2007		**David Burling** Member of the Executive Board, since 1 June 2015	
€ '000	2016	**2017**	2016	**2017**	2016	**2017**
Fixed remuneration	1,100.0	1,100.0	803.0	740.0	600.0	600.0
Fringe benefits	45.4	132.3	18.7	20.0	42.1	107.9
Total	**1,145.4**	**1,232.3**	**821.7**	**760.0**	**642.1**	**707.9**
JEV	970.2	1,096.0	474.6	536.1	421.8	476.5
Additional remuneration	920.0	920.0	450.0	450.0	400.0	400.0
LTIP	820.0	820.0	1,220.2	784.6		
Cash deferral (FY 2014)			144.2			
LTIP (2013–2016)	820.0		1,076.0			
LTIP (2014–2017)		820.0		784.6		
Others	–	–				
Total	**3,855.6**	**4,068.3**	**2,966.5**	**2,530.7**	**1,463.9**	**1,584.4**
Pension/service costs[2]	726.0	625.7	22.3	–	225.0	225.0
Total remuneration	**4,581.6**	**4,694.0**	**2,988.8**	**2,530.7**	**1,688.9**	**1,809.4**

Remuneration paid

	Sebastian Ebel Member of the Executive Board, since 12 December 2014		**Dr Elke Eller** Member of the Executive Board/ Labour Director, since 15 October 2015		**Frank Rosenberger** Deputy member of the Executive Board, since 1 January 2017	
€ '000	2016	**2017**	2016	**2017**	2016	**2017**
Fixed remuneration	680.0	680.0	654.2	680.0		375.0
Fringe benefits	18.0	18.0	23.8	34.3		41.4
Total	**698.0**	**698.0**	**678.0**	**714.3**		**416.4**
JEV	337.5	381.2	304.4	357.4		250.2
Additional remuneration	320.0	320.0	300.0	300.0		210.0
LTIP						
Cash deferral (FY 2014)						
LTIP (2013–2016)						
LTIP (2014–2017)						
Others						
Total	**1,355.5**	**1,399.2**	**1,282.4**	**1,371.6**		**876.5**
Pension/service costs[2]	328.5	286.1	405.0	345.1		382.6
Total remuneration	**1,684.0**	**1,685.3**	**1,687.4**	**1,716.7**		**1,259.1**

1 Joint CEO until 9 February 2016; member of the Executive Board since 15 October 2012
2 For Mr Joussen, Mr Baier, Mr Ebel, Mrs Dr Eller and Mr Rosenberger service costs acc. to IAS19; for Mr Burling payments for pension contribution

The remuneration paid for the last expired financial year shows the LTIP cash payment for the performance reference period 'LTIP 2014–2017' for Mr Joussen and Mr Baier.

In his service agreement of 30 July 2012, a contractual advance payment of €1,280.0 thousand was agreed with and paid to Mr Joussen for the performance reference period 'LTIP 2014–2017'. The payment was deducted from the entitlement for the entire performance reference period 'LTIP 2014–2017' that actually arose upon expiry of financial year 2017. In this respect, only the remaining difference of €820 thousand is shown in the aforementioned table as remuneration paid.

VII. REVIEW OF APPROPRIATENESS OF THE REMUNERATION AND PENSIONS OF EXECUTIVE BOARD MEMBERS

Following the end of financial year 2017, the Supervisory Board carried out the annual review of the remuneration and pensions of Executive Board members for financial year 2017. It concluded that these are appropriate in accordance with section 87(1) German Stock Corporation Act.

The Supervisory Board also regularly makes use of external advisors when assessing the appropriateness of the remuneration and pensions of Executive Board members. This involves, firstly, assessing from an outside perspective the level and structure of the remuneration of Executive Board members in relation to the remuneration of senior management and the workforce as a whole (vertical comparison). In addition to a status quo review, the vertical comparison also takes into account how this relationship changes over time. Secondly, the remuneration level and structure are assessed on the basis of a positioning of TUI AG in a peer market made up of a combination of DAX and MDAX companies that are similar to TUI AG in terms of size and complexity of business (horizontal comparison). In addition to the fixed remuneration, the horizontal comparison also covers the short- and long-term remuneration components as well as the amount of company pension. For financial year 2017, the Supervisory Board commissioned the consultancy company hkp Group AG to prepare an expert report on the appropriateness of the remuneration level for Executive Board members. The partner of hkp Group AG commissioned by the Supervisory Board and responsible for carrying out the assessment is independent of the Executive Board of TUI AG and the company. The finding of the external advisor supported the judgment of the Supervisory Board that the level of remuneration of Executive Board members complies with section 87(1) German Stock Corporation Act as well as the recommendations of the GCGC.

VIII. REMUNERATION OF THE SUPERVISORY BOARD

The provisions and remuneration of members of the Supervisory Board follow from section 18 of TUI AG's Articles of Association, which have been made permanently accessible to the public on the internet. The remuneration of the Supervisory Board is reviewed at appropriate intervals. In this regard the expected time required for the relevant duties and experience in companies of a similar size, industry and complexity are taken into account.

Purpose and link to company strategy

Highly-qualified Supervisory Board members are to be acquired and retained.

Procedure

Besides reimbursement of their expenses, the members of the Supervisory Board receive a fixed remuneration of €90.0 thousand per financial year, payable upon completion of the financial year. The chairman shall receive three times, and his deputies twice, the fixed remuneration of a Supervisory Board member.

An additional fixed remuneration of €42.0 thousand is paid for membership of committees (e.g. the presiding committee, the audit committee, the strategy committee and the integration committee that was dissolved in December 2016, but not the nomination committee). The chairman of the audit committee shall receive three times, and the chairman of the strategy committee twice, this remuneration. This remuneration is also paid out at the end of the respective financial year.

The members of the Supervisory Board receive no further remuneration components and no fringe benefits. In all cases the remuneration relates to a full financial year. For parts of a financial year and for short financial years the remuneration shall be paid on a pro rata basis.

The members of the Supervisory Board and the committees receive an attendance fee of €1.0 thousand per meeting, regardless of the form the meeting takes.

Moreover, the members of the Supervisory Board are included in any financial liability insurance policy (D&O insurance) taken out in an appropriate amount by the company in its own interests. The relevant insurance premiums are paid by the company. In line with the recommendation of the GCGC, there is a deductible for which the Supervisory Board members can take out their own private insurance.

Cap

There is no need to set a cap because the remuneration for the Supervisory Board members consists solely of fixed components.

On 9 February 2016 the Annual General Meeting of TUI AG passed a resolution to change the remuneration of the Supervisory Board to fixed remuneration only as well as to adjust the amount of the fixed remuneration components. The new remuneration model applied retroactively as of 1 October 2015, which meant that the variable remuneration granted in accordance with the provisions of the articles of association applicable until 9 February 2016 and based on the long-term success of the company was no longer paid. This variable remuneration was based on the average undiluted earnings per share (EPS) carried in the consolidated financial statements for the respective last three financial years. At the time of redemption, the members of the Supervisory Board were still entitled to the long-term remuneration granted in financial years 2014 and 2015 because of the three-year vesting period. These entitlements were redeemed on the basis of EPS planned values for financial years 2016 and 2017. Reducing the remuneration of the members of the Supervisory Board for past and current financial years is not permitted under stock corporation law. For this reason it needed / needs to be checked, also upon completion of financial years 2016 and 2017, whether this has taken place with the change to the remuneration model by taking the EPS planned value for the relevant financial years as a basis. If using the EPS values actually achieved were to lead to higher long-term incentives than taking into account the planned values, the corresponding difference is to be paid to the relevant members of the Supervisory Board upon the close of the Annual General Meeting that will vote on the ratification of the acts of the Supervisory Board for the respective financial year.

For the remuneration component granted in financial year 2014, it was found that, upon the close of the Annual General Meeting 2017, the actual EPS value of financial year 2016, € 1.78, was above the EPS planned value of € 0.81 taken as a basis for the redemption. The resulting difference was paid to the relevant members of the Supervisory Board accordingly and is shown in the following tables. Upon the close of the Annual General Meeting 2018 it will be determined whether, for the variable remuneration component granted in financial year 2015, a difference will have to be paid to the relevant members of the Supervisory Board based on the comparison of EPS planned values and actual EPS values of financial years 2016 and 2017.

In addition, regarding the remuneration granted in financial year 2016, it will be reviewed – upon the close of the Annual General Meeting 2019 – whether applying the remuneration model valid until 9 February 2016 would have resulted in higher remuneration than applying the new model did. If this is the case, the corresponding difference has to be paid to the members of the Supervisory Board upon the close of the Annual General Meeting 2019.

IX. REMUNERATION OF THE SUPERVISORY BOARD AS A WHOLE

Remuneration of the Supervisory Board

€ '000	**2017**	2016
Fixed remuneration	2,160.0	2,141.8
Long-term variable remuneration	176.1	1,108.7
Remuneration for committee memberships	1,096.2	1,166.6
Attendance fee	321.0	283.0
Remuneration for TUI AG Supervisory Board mandate	3,753.3	4,700.1
Remuneration for Supervisory Board mandates in the Group	41.4	20.5
Total	**3,794.7**	**4,720.6**

In addition, travel and other expenses totalling € 507.6 thousand (previous year: € 461.0 thousand) were reimbursed. Total remuneration of the Supervisory Board members, including reimbursement of travel and other expenses, thus amounted to € 4,302.2 thousand (previous year: € 5,181.6 thousand).

X. REMUNERATION OF INDIVIDUAL SUPERVISORY BOARD MEMBERS FOR FINANCIAL YEAR 2017

Remuneration of individual Supervisory Board members for financial year 2017

€ '000	Fixed remuneration	Ex-post adjustment of long-term variable remuneration	Remuneration for committee memberships	Attendance fee	Remuneration for Supervisory Board mandates in the Group	**Total**
Prof. Dr Klaus Mangold (Chairman)	270.0	46.2	133.7	33.0		482.9
Frank Jakobi (Deputy Chairman)	180.0	21.5	91.7	23.0		316.2
Sir Michael Hodgkinson (Deputy Chairman)	180.0		49.7	18.0		247.7
Andreas Barczewski	90.0	15.4	42.0	16.0	23.0	186.3
Peter Bremme	90.0	11.5	42.0	14.0		157.5
Prof. Dr Edgar Ernst	90.0	15.4	133.7	17.0		256.1
Wolfgang Flintermann	90.0		0.0	8.0		98.0
Angelika Gifford	90.0		42.0	13.0		145.0
Valerie Gooding	90.0		49.7	13.0		152.7
Dr Dierk Hirschel	90.0		42.0	15.0		147.0
Janis Kong	90.0		42.0	15.0		147.0
Peter Long	90.0		84.0	13.0		187.0
Coline McConville	90.0		49.7	15.0		154.7
Alexey Mordashov	90.0		84.0	20.0		194.0
Michael Pönipp	90.0	15.4	42.0	16.0	18.4	181.8
Carmen Riu Güell	90.0	8.8	42.0	17.0		157.8
Carola Schwirn	90.0	11.1	0.0	8.0		109.1
Anette Strempel	90.0	15.4	42.0	16.0		163.4
Ortwin Strubelt	90.0	15.4	84.0	24.0		213.4
Stefan Weinhofer	90.0		0.0	7.0		97.0
Total	**2,160.0**	**176.1**	**1,096.2**	**321.0**	**41.4**	**3,794.7**

Apart from the work performed by the employees' representatives pursuant to their contracts, none of the members of the Supervisory Board provided any personal services such as consultation or agency services for TUI AG or its subsidiaries in financial year 2017 and thus did not receive any additional remuneration arising out of this.

The new remuneration scheme for the Executive Board as from financial year 2018

A. Background

Over recent years shareholders and proxy advisors – in particular from the UK – have repeatedly commented on the existing remuneration scheme for the Executive Board of TUI AG (existing remuneration scheme). They expressed the view, inter alia, that the target achievement corridors for variable remuneration (JEV and LTIP) were not ambitious enough. The discretionary elements and decisions anchored in the existing remuneration scheme allegedly lacked traceability and transparency.

Although the existing remuneration scheme meets all statutory requirements and also results in appropriate compensation, the Supervisory Board believes, following the successful integration of TUI AG and former TUI Travel PLC, that the time has come to take the next step. The comments and requests from our – in some cases longstanding – UK shareholders and proxy advisors to revise the existing remuneration scheme are largely shaped by the environment of the Anglo-Saxon judicial area. As a result, the aforementioned positions reflect the recommendations of the UK-CGK and a different market practice as applied in the UK. Against this background and in view of current developments in how remuneration is structured in Germany, the Supervisory Board of TUI AG has unanimously adopted a new remuneration scheme for the Executive Board of TUI AG (new remuneration scheme), which it believes takes both perspectives into account. It shall apply retroactively with effect from the beginning of financial year 2018 to all Executive Board members with whom a new service agreement has been concluded on account of the changes to the remuneration scheme.

B. Key remuneration components and changes

In the following the key components of the new remuneration scheme and the changes to the existing remuneration scheme will be described.

I. MORE TRANSPARENT DESIGN OF DISCRETIONARY DECISIONS AND NO MORE DISCRETIONARY BONUSES

The new remuneration scheme does away entirely with the Supervisory Board's previous option of granting additional remuneration on a discretionary basis (re. the option under the existing remuneration scheme: see p. 120 of the Annual Report).

As before, the JEV depends on an individual performance factor in addition to target achievement in respect to group performance indicators (see below [B. III. 1. and IV. 1.]). Under the new remuneration scheme; the Supervisory Board shall determine the individual performance factor for the JEV for each Executive Board member (0.8 to 1:2) based on the achievement of three target categories: In addition to individual performance targets, this includes targets for the overall performance of the Executive Board and stakeholder targets. The Supervisory Board will establish the targets from these three categories and their relative weighting for each Executive Board member and financial year.

II. FIXED REMUNERATION

The structure of fixed remuneration will remain unchanged.

III. NEW GROUP PERFORMANCE INDICATORS FOR VARIABLE REMUNERATION

The annual variable remuneration (JEV) and multi-annual variable remuneration (LTIP) will take additional stakeholder relevant group performance indicators into account and there will be changes to performance criteria used so far.

1. JEV

The JEV will remain a variable remuneration related to the respective financial year. In future, the JEV will include three group performance indicators as opposed to previously one (Reported Group EBITA).

1.1 EARNINGS BEFORE TAXES (EBT) REPLACES REPORTED GROUP EBITA

The previous group performance indicator Reported Group EBITA will be replaced by EBT on a constant currency basis with a weighting of 50 %. This change in group performance indicators permits inclusion of the net financial result in the calculation. The adjustment for currency effects makes it possible to measure the actual management performance without distortion from currency-induced translation effects.

1.2 RETURN ON INVESTED CAPITAL (ROIC) AS ADDITIONAL GROUP PERFORMANCE INDICATOR

The newly introduced group performance indicator ROIC will be included in the JEV with a weighting of 25 %. The Reported Group EBITA and the average invested interest-bearing capital for the financial year will be weighed against each other to establish the ROIC of the TUI Group used to calculate the JEV. By applying the average assessment previously used in the Annual Report, seasonal fluctuations and differences in capital intensity of the business model specific segments of TUI AG can be taken into account and a return on equity target can be included in the annual variable remuneration.

1.3 CASH FLOW AS AN ADDITIONAL GROUP PERFORMANCE INDICATOR

A cash flow component will also be included in the calculation as a third group performance indicator with a weighting of 25 %. For this purpose the cash flow will be determined using a simplified method, which is based on the management cash flow calculation and covers the liquidity parameters directly controlled by the Executive Board (depreciation, Working Capital, income from investments and dividends, net investments) on the basis of Reported Group EBITA, which will also be adjusted for foreign exchange effects for this purpose.

2. LTIP
The LTIP shall remain a multi-annual variable remuneration on the basis of virtual shares of TUI AG with a four-year performance reference period.

2.1 EARNINGS PER SHARE (EPS) AS AN ADDITIONAL GROUP PERFORMANCE INDICATOR
In future the LTIP will take into account average EPS development p.a. as an additional group performance indicator, which will be included with a weighting of 50 %. Average assessment over the four-year performance reference period is based on pro forma underlying earnings per share from continuing operations, as already reported in the Annual Report.

2.2 RELATIVE TOTAL SHAREHOLDER RETURN (TSR) WITH ALTERED RANKING
In future, a percentile ranking will be applied to the TSR which has already been relevant so far. The relative TSR will be included with a weighting of 50 %.

IV. AMBITIOUS TARGET ACHIEVEMENT STRUCTURE FOR VARIABLE REMUNERATION (JEV AND LTIP)/CAPPING MAXIMUM TARGET ACHIEVEMENT
The target achievement corridors for the group performance indicators in the variable remuneration components JEV and LTIP will be more ambitious than before.

1. JEV
1.1 EBT
The EBT component of the JEV must reach a threshold of at least 90 % of the earnings target (on a constant currency basis) (equals target achievement of 50 %), in order to be relevant for bonus purposes. Anything in excess of 110 % (on a constant currency basis) of the earnings target (corresponds to a target achievement of 180 %) is not included.

1.2 ROIC
The ROIC component of the JEV will only be included in the JEV where the return on investment is no more than 3 % points below the defined target (corresponds to a target achievement of 50 %). In order to reach maximum target achievement of 180 % the target must be exceeded by 3 % points or more.

1.3 CASH FLOW
The cash flow component of the JEV must reach a threshold of at least 90 % of the liquidity target (adjusted for foreign exchange effects) (corresponds to a target achievement of 50 %), in order to be relevant for bonus purposes. Anything in excess of 110 % of the liquidity target (corresponds to a target achievement of 180 %) is not included.

1.4 CAP
The annual JEV is limited to 180 % (before taking the individual performance factor into account).

2. LTIP
2.1 RELATIVE TSR
Where TUI AG achieves a percentile below the median value of the relevant benchmark group, the TSR target shall be factored into the LTIP at 0 %. A percentile on the median shall be deemed to correspond to a target achievement of 100 %. Where the percentile is equivalent to the maximum value 175 % of the TSR target is deemed to be achieved.

2.2 EPS
If, during the four-year performance reference period, the EPS increases by less than 3 % p.a. in relation to the value of the last financial year before commencement of the performance reference period, this shall correspond to a target achievement of 0 %. An average increase p.a. of 3 % corresponds to a target achievement of 25 %. The maximum target achievement of 175 % is reached in the event of an average increase p.a. of 10 %.

2.3 CAP
The maximum LTIP payment is limited to 240 % of the individual target amount per performance reference period (previously 300 %).

V. FRINGE BENEFITS AND COMPANY CAR
The fringe benefits granted so far as well as the provisions on company cars shall essentially remain unchanged.

VI. PAYMENTS IN CASE OF PREMATURE TERMINATION OF EXECUTIVE BOARD MEMBERSHIP
The provisions governing payments to Executive Board members in case of premature termination of Executive Board membership shall remain unchanged.

VII. PENSION BENEFITS
Previous pension commitments shall be continued unchanged.

C. Suggestions not implemented in the new remuneration scheme

I. CLAWBACK OR MALUS PROVISIONS
The Supervisory Board generally acknowledges stakeholders' desire to introduce clawback or malus provisions that permit an adjustment of variable remuneration.

However, such provisions are still largely uncommon within the German judicial area. They only recently became mandatory for certain financial institutions. So far it has yet to be clarified at the highest judicial level which principles (e.g. transparency and appropriateness of clawback/malus criteria) need to be satisfied by clawback and malus provisions in order for them to be valid and enforceable.

The Supervisory Board has therefore refrained from introducing clawback and malus clauses under the new remuneration scheme. It will also review in future whether clawback and malus clauses are to be included in the remuneration scheme for the Executive Board.

II. SHARE OWNERSHIP REQUIREMENTS

The new remuneration scheme does not provide for any obligation to acquire company shares. Not least due to the limited time frame for trading in TUI financial instruments, the Supervisory Board believes voluntary solutions to be preferable. In order to protect the capital market but also its corporate bodies and staff, TUI AG is bound by trading bans that are far stricter than those prescribed by law (e.g. four regular closed periods of up to 60 days, application of a restrictive TUI Share Dealing Manual). Recent cases demonstrate how difficult it is to determine a legally permissible and economically viable time for the acquisition of shares. Many Executive Board members of TUI AG voluntarily hold a relevant number of company shares.

D. Procedure

The Chairman of the Supervisory Board of TUI AG guided and managed drafting of the new remuneration scheme. The many stakeholder interests were incorporated into the process in a number of ways. The Supervisory Board Chairman and his Deputy Chairman (Sir Michael Hodgkinson) discussed suggestions from shareholders with large institutional investors at numerous meetings over the course of recent years. Members of the Supervisory Board with longstanding expertise as chairpersons or members of remuneration committees and / or non-executive directors in companies in the UK and other English-speaking countries played an important part in designing the new remuneration scheme. The chairman of the audit committee, with his expertise in performance indicators, and employee representatives on the Supervisory Board's executive committee were also involved. External remuneration and legal advisors introduced their suggestions into the process and reviewed the scheme. The external remuneration advisors conducted simulations of remuneration scenarios for the past and the future. Proposals from Executive Board members on the new remuneration scheme were intensely debated and appropriately considered by the Supervisory Board. The new service agreements will be concluded on 12 December 2017 and retroactively take effect on 1 October 2017. They were the subject of intense discussion with the Executive Board members.

The Supervisory Board and the Executive Board will present the new remuneration scheme to the Annual General Meeting 2018 for approval. The new remuneration scheme will also be described in the invitation to the Annual General Meeting 2018 in detail.

Norway. It takes an experienced captain to navigate a cruise liner through a fjord. Before deckhands can take the helm, they must qualify for their mariner's licence. TUI Cruises has been training assistant deck officers since 2017. The trainees are just starting out on a nautical career.

READ MORE ABOUT TRAINING AT TUI CRUISES IN THE MAGAZINE UNDER 'SETTING COURSE'

Consolidated Financial Statements and Notes

CONSOLIDATED FINANCIAL STATEMENTS

Income statement of the TUI Group for the period from 1 Oct 2016 to 30 Sep 2017

€ million	Notes	2017	2016
Turnover	(1)	18,535.0	17,153.9
Cost of sales	(2)	16,535.5	15,247.4
Gross profit		**1,999.5**	**1,906.5**
Administrative expenses	(2)	1,255.8	1,216.9
Other income	(3)	12.5	36.3
Other expenses		1.9	7.4
Financial income	(4)	229.3	58.5
Financial expenses	(5)	156.2	345.9
Share of result of joint ventures and associates	(6)	252.3	187.2
Earnings before income taxes		**1,079.7**	**618.3**
Income taxes	(7)	168.8	153.4
Result from continuing operations		**910.9**	**464.9**
Result from discontinued operations	(8)	–149.5	687.3
Group profit		**761.4**	**1,152.2**
Group profit attributable to shareholders of TUI AG	(9)	644.8	1,037.4
Group profit attributable to non-controlling interest	(10)	116.6	114.8

Earnings per share

€	Notes	2017	2016
Basic earnings per share	(11)	**1.10**	**1.78**
from continuing operations		1.36	0.61
from discontinued operations		– 0.26	1.17
Diluted earnings per share	(11)	**1.10**	**1.77**
from continuing operations		1.36	0.60
from discontinued operations		– 0.26	1.17

Statement of comprehensive income of TUI Group for the period from 1 Oct 2016 to 30 Sep 2017

€ million	Notes	2017	2016
Group profit		**761.4**	**1,152.2**
Remeasurements of defined benefit obligations and related fund assets		280.7	– 593.3
Income tax related to items that will not be reclassified	(12)	– 66.9	157.9
Items that will not be reclassified to profit or loss		**213.8**	**– 435.4**
Foreign exchange differences		–17.9	52.4
Foreign exchange differences outside profit or loss		– 89.3	32.7
Reclassification / adjustments		71.4	19.7
Financial instruments available for sale		– 31.8	31.8
Changes in the fair value		147.8	31.8
Reclassification / adjustments		–179.6	–
Cash flow hedges		– 263.6	546.1
Changes in the fair value		– 635.4	505.7
Reclassification / adjustments		371.8	40.4
Changes in the measurement of joint ventures and associates		19.3	– 32.0
Changes in the measurement outside profit or loss		28.0	– 32.0
Reclassification / adjustments		– 8.7	–
Income tax related to items that may be reclassified	(12)	46.9	– 80.9
Items that may be reclassified to profit or loss		**– 247.1**	**517.4**
Other comprehensive income		**– 33.3**	**82.0**
Total comprehensive income		**728.1**	**1,234.2**
attributable to shareholders of TUI AG		620.0	1,141.8
attributable to non-controlling interest		108.1	92.4
Allocation of share of shareholders of TUI AG of total comprehensive income			
Continuing operations		705.7	404.2
Discontinued operations		– 85.7	737.6

Financial position of the TUI Group as at 30 Sep 2017

€ million	Notes	**30 Sep 2017**	30 Sep 2016
Assets			
Goodwill	(13)	2,889.5	2,853.5
Other intangible assets	(14)	548.1	545.8
Property, plant and equipment	(15)	4,253.7	3,714.5
Investments in joint ventures and associates	(16)	1,306.2	1,180.8
Financial assets available for sale	(17), (38)	69.5	50.4
Trade receivables and other assets	(18), (38)	211.8	156.5
Touristic payments on account	(19)	185.2	158.8
Derivative financial instruments	(38)	79.9	126.8
Deferred tax assets	(20)	323.7	344.7
Non-current assets		**9,867.6**	**9,131.8**
Inventories	(21)	110.2	105.2
Financial assets available for sale	(17), (38)	–	265.8
Trade receivables and other assets	(18), (38)	794.5	754.7
Touristic payments on account	(19)	573.4	565.4
Derivative financial instruments	(38)	215.4	544.6
Income tax assets	(20)	98.7	87.7
Cash and cash equivalents	(22), (38)	2,516.1	2,072.9
Assets held for sale	(23)	9.6	929.8
Current assets		**4,317.9**	**5,326.1**
Total assets		**14,185.5**	**14,457.9**

Financial position of the TUI Group as at 30 Sep 2017

€ million	Notes	30 Sep 2017	30 Sep 2016
Equity and liabilities			
Subscribed capital	(24)	1,501.6	1,500.7
Capital reserves	(25)	4,195.0	4,192.2
Revenue reserves	(26)	–2,756.9	–3,017.8
Equity before non-controlling interest		**2,939.7**	**2,675.1**
Non-controlling interest	(28)	594.0	573.1
Equity		**3,533.7**	**3,248.2**
Pension provisions and similar obligations	(29)	1,094.7	1,410.3
Other provisions	(30)	801.4	803.0
Non-current provisions		**1,896.1**	**2,213.3**
Financial liabilities	(31), (38)	1,761.2	1,503.4
Derivative financial instruments	(38)	50.4	27.5
Income tax liabilities		150.2	22.2
Deferred tax liabilities	(20)	109.0	62.9
Other liabilities	(32), (38)	150.2	160.1
Non-current liabilities		**2,221.0**	**1,776.1**
Non-current provisions and liabilities		**4,117.1**	**3,989.4**
Pension provisions and similar obligations	(29)	32.7	40.6
Other provisions	(30)	349.9	374.8
Current provisions		**382.6**	**415.4**
Financial liabilities	(31), (38)	171.9	537.7
Trade payables	(38)	2,653.3	2,476.9
Touristic advance payments received		2,446.4	2,301.3
Derivative financial instruments	(38)	217.2	249.6
Income tax liabilities		65.3	196.0
Other liabilities	(32), (38)	598.0	571.1
Current liabilities		**6,152.1**	**6,332.6**
Liabilities related to assets held for sale	(33)	–	472.3
Current provisions and liabilities		**6,534.7**	**7,220.3**
Total provisions and liabilities		**14,185.5**	**14,457.9**

Statement of changes in Group equity of the TUI Group for the period from 1 Oct 2016 to 30 Sep 2017

€ million	Subscribed capital (24)	Capital reserves (25)	Other revenue reserves	Foreign exchange differences
Balance as at 1 Oct 2015	**1,499.6**	**4,187.7**	**–2,460.4**	**–1,129.2**
Dividends	–	–	–327.0	–
Share-based payment schemes	–	–	4.3	–
Issue of employee shares	1.1	4.5	–	–
Acquisition of own shares	–	–	–56.3	–
Deconsolidation	–	–	–	–
Effects on the acquisition of non-controlling interests	–	–	–6.9	–
Group profit	**–**	**–**	**1,037.4**	**–**
Foreign exchange differences	–	–	61.0	34.0
Financial instruments available for sale	–	–	–	–
Cash flow hedges	–	–	–	–
Remeasurements of defined benefit obligations and related fund assets	–	–	–593.3	–
Changes in the measurement of joint ventures and associates	–	–	–32.0	–
Taxes attributable to other comprehensive income	–	–	157.9	–
Other comprehensive income	**–**	**–**	**–406.4**	**34.0**
Total comprehensive income	–	–	631.0	34.0
Balance as at 30 Sep 2016	**1,500.7**	**4,192.2**	**–2,215.3**	**–1,095.2**
Dividends	–	–	–368.2	–
Share based payment schemes	–	–	–1.0	–
Issue of employee shares	0.9	2.8	–	–
Acquisition of own shares	–	–	–22.3	–
Disposal of own shares	–	–	32.4	–
Deconsolidation	–	–	1.8	–
Group profit	**–**	**–**	**644.8**	**–**
Foreign exchange differences	–	–	132.2	–142.4
Financial Instruments available for sale	–	–	–	–
Cash flow hedges	–	–	–	–
Remeasurements of defined benefit obligations and related fund assets	–	–	280.7	–
Changes in the measurement of companies measured at equity	–	–	19.3	–
Taxes attributable to other comprehensive income	–	–	–66.9	–
Other comprehensive income	–	–	365.3	–142.4
Total comprehensive income	–	–	1,010.1	–142.4
Balance as at 30 Sep 2017	**1,501.6**	**4,195.0**	**–1,562.5**	**–1,237.6**

Financial instruments available for sale	Cash flow hedges	Revaluation reserve	Revenue reserves (26)	Equity before non-controlling interest	Non-controlling interest (28)	**Total**
–	**–204.1**	**19.8**	**–3,773.9**	**1,913.4**	**503.9**	**2,417.3**
–	–	–	–327.0	–327.0	–13.6	–340.6
–	–	–	4.3	4.3	–	4.3
–	–	–	–	5.6	–	5.6
–	–	–	–56.3	–56.3	–	–56.3
–	–	0.2	0.2	0.2	–10.0	–9.8
–	–	–	–6.9	–6.9	0.4	–6.5
–	**–**	**–**	**1,037.4**	**1,037.4**	**114.8**	**1,152.2**
–	–19.4	–0.6	75.0	75.0	–22.6	52.4
31.8	–	–	31.8	31.8	–	31.8
–	545.8	–	545.8	545.8	0.3	546.1
–	–	–	–593.3	–593.3	–	–593.3
–	–	–	–32.0	–32.0	–	–32.0
–	–80.8	–	77.1	77.1	–0.1	77.0
31.8	**445.6**	**–0.6**	**104.4**	**104.4**	**–22.4**	**82.0**
31.8	445.6	–0.6	1,141.8	1,141.8	92.4	1,234.2
31.8	**241.5**	**19.4**	**–3,017.8**	**2,675.1**	**573.1**	**3,248.2**
–	–	–	–368.2	–368.2	–87.2	–455.4
–	–	–	–1.0	–1.0	–	–1.0
–	–	–	–	3.7	–	3.7
–	–	–	–22.3	–22.3	–	–22.3
–	–	–	32.4	32.4	–	32.4
–	–	–1.8	–	–	–	–
–	**–**	**–**	**644.8**	**644.8**	**116.6**	**761.4**
–	2.8	–2.1	–9.5	–9.5	–8.4	–17.9
–31.8	–	–	–31.8	–31.8	–	–31.8
–	–263.5	–	–263.5	–263.5	–0.1	–263.6
–	–	–	280.7	280.7	–	280.7
–	–	–	19.3	19.3	–	19.3
–	46.9	–	–20.0	–20.0	–	–20.0
–31.8	–213.8	–2.1	–24.8	–24.8	–8.5	–33.3
–31.8	–213.8	–2.1	620.0	620.0	108.1	728.1
–	**27.7**	**15.5**	**–2,756.9**	**2,939.7**	**594.0**	**3,533.7**

Cash flow statement

€ million	Notes	2017	2016	Var.
Group profit		761.4	1,152.2	–390.8
Depreciation, amortisation and impairment (+)/write-backs (–)		517.8	578.5	–60.7
Other non-cash expenses (+)/income (–)		–239.6	–164.6	–75.0
Interest expenses		141.8	202.3	–60.5
Dividends from joint ventures and associates		118.2	82.2	+36.0
Profit (–)/loss (+) from disposals of non-current assets		–100.7	–802.5	+701.8
Increase (–)/decrease (+) in inventories		–18.5	–9.5	–9.0
Increase (–)/decrease (+) in receivables and other assets		169.5	324.7	–155.2
Increase (+)/decrease (–) in provisions		–84.6	–234.2	+149.6
Increase (+)/decrease (–) in liabilities (excl. financial liabilities)		317.8	–94.4	+412.2
Cash inflow from operating activities	(40)	**1,583.1**	**1,034.7**	**+548.4**
Payments received from disposals of property, plant and equipment and intangible assets		79.5	115.3	–35.8
Payments from disposals of consolidated companies (less disposals of cash and cash equivalents due to divestments)		–14.3	876.7	–891.0
Payments received from the disposals of other non-current assets		418.7	12.1	+406.6
Payments made for investments in property, plant and equipment and intangible assets		–1,049.0	–697.4	–351.6
Payments made for investments in consolidated companies (less cash and cash equivalents received due to acquisitions)		–66.0	–10.5	–55.5
Payments made for investments in other non-current assets		–56.6	–57.2	+0.6
Cash outflow/inflow from investing activities	(41)	**–687.7**	**239.0**	**–926.7**
Payments made for acquisition of own shares		–22.3	–56.2	+33.9
Payments received from the issuance of employee shares		3.7	2.0	+1.7
Payments made for interest increase in consolidated companies		–	–8.0	+8.0
Dividend payments				
TUI AG		–368.2	–327.0	–41.2
subsidiaries to non-controlling interest		–88.6	–14.1	–74.5
Payments received from the issue of bonds and the raising of financial liabilities		329.8	108.8	+221.0
Payments made for redemption of loans and financial liabilities		–513.4	–275.3	–238.1
Interest paid		–74.8	–92.3	+17.5
Cash outflow from financing activities	(42)	**–733.8**	**–662.1**	**–71.7**
Net change in cash and cash equivalents		**161.6**	**611.6**	**–450.0**
Development of cash and cash equivalents	(43)			
Cash and cash equivalents at beginning of period		**2,403.6**	**1,682.2**	**+721.4**
Change in cash and cash equivalents due to exchange rate fluctuations		–49.1	105.8	–154.9
Change in cash and cash equivalents due to changes in the group of consolidated companies		–	4.0	–4.0
Net change in cash and cash equivalents		**161.6**	611.6	–450.0
Cash and cash equivalents at end of period		**2,516.1**	**2,403.6**	**+112.5**
of which included in the balance sheet as assets held for sale		–	330.7	–330.7

NOTES

Principles and methods underlying the Consolidated Financial Statements

General

The TUI Group with its major subsidiaries and shareholdings operates in tourism.

TUI AG, based in Karl-Wiechert-Allee 4, Hanover is the TUI Group's parent company and a listed corporation under German law. The Company is registered in the commercial registers of the district courts of Berlin-Charlottenburg (HRB 321) and Hanover (HRB 6580). The shares in the company are traded on the London Stock Exchange and the Hanover and Frankfurt Stock Exchanges.

These consolidated financial statements of TUI AG were prepared for the financial year 2017 comprising the period from 1 October 2016 to 30 September 2017. Where any of TUI's subsidiaries have different financial years, financial statements were prepared as at 30 September in order to include these subsidiaries in TUI AG's consolidated financial statements.

The Executive Board and the Supervisory Board have submitted a Declaration of Compliance with the German Corporate Governance Code required pursuant to section 161 of the German Stock Corporation Act (AktG) and made it permanently available to the general public on the Company's website (www.tuigroup.com).

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

The consolidated financial statements were approved for publication by TUI AG's Executive Board on 11 December 2017.

Accounting principles

DECLARATION OF COMPLIANCE

Pursuant to Regulation EEC No. 1606/2002 of the European Parliament and Council, TUI AG's consolidated financial statements as at 30 September 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. Moreover, the commercial-law provisions listed in section 315a (1) of the German Commercial Code (HGB) were also observed in preparing the consolidated financial statements.

The accounting and measurement methods and the explanatory information and Notes to these annual financial statements for financial year 2017 are generally consistent with those followed in preparing the previous consolidated financial statements for financial year 2016.

NEWLY APPLIED STANDARDS

Since the beginning of the financial year 2017 the following standards amended or newly issued by the IASB became mandatorily applicable for the first time to TUI Group:

Newly applied standards in financial year 2017

Standard	Applicable from	Amendments	Impact on financial statements
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 Jan 2016	The amendments specify how to account for the acquisition of an interest in a Joint Operation that constitutes a 'business' (as defined in IFRS 3). Accordingly, the acquirer has to measure identifiable assets and liabilities at fair value, recognise acquisition-related costs as expenses, recognise deferred tax assets and liabilities and capitalise any residual amounts as goodwill. Furthermore, the disclosure requirements of IFRS 3 apply. The amendments are to be applied prospectively.	No material impact
IAS 16 & IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 2016	The amendment clarifies when a method of depreciation or amortisation based on revenue may be appropriate. According to it, depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate, amortisation based on revenue for intangible assets only in exceptional cases. The amendments are to be applied prospectively.	No impact
IAS 16 & IAS 41 Agriculture: Bearer Plants	1 Jan 2016	Bearer plants that bear biological assets for more than one period without being an agricultural product themselves, such as grape vines or olive trees, have this far been measured at fair value. In future, bearer plants will be treated as property, plant and equipment in scope of IAS 16 and are to be measured at amortised cost. By contrast, the produce growing on bearer plants will continue to be measured at fair value in accordance with IAS 41.	No impact
Various Improvements to IFRS (2012–2014)	1 Jan 2016	The amendments from the Annual Improvements Project comprise changes to four standards: IAS 19, IAS 34, IFRS 5 and IFRS 7. The amendments introduce minor changes to the content as well as clarifications regarding recognition, presentation and measurement.	No material impact
IAS 1 Disclosure Initiative	1 Jan 2016	The amendments address the application of materiality when presenting the components of financial statements. The standard no longer prescribes a particular order of the notes so that the order of the notes may reflect the individual relevance for the company. The amendments clarify that immaterial disclosures are not required. This also applies if disclosure is required by another standard. Furthermore, the presentation of an entity's share of other comprehensive income of equity-accounted associates and joint ventures in the statement of comprehensive income is clarified.	No material impact

Going concern reporting according to the UK Corporate Governance Code

The Executive Board remains satisfied with the Group's funding and liquidity position. At 30 September 2017, the main sources of debt funding included:

- an external revolving credit facility of € 1,535.0 m maturing in July 2022, used to manage the seasonality of the Group's cash flows and liquidity,
- 2016 / 21 bonds with a nominal value of € 300.0 m, issued by TUI AG, maturing in October 2021,
- € 1,226.5 m of finance lease obligations, and
- bank liabilities of € 381.3 m, primarily for loans used to acquire property, plant and equipment.

The credit facility requires compliance with certain financial covenants, which were fully complied with at the balance sheet date.

In accordance with provision C1.3 of the UK Corporate Governance Code, the Executive Board confirms that it considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Principles and methods of consolidation

PRINCIPLES

The consolidated financial statements include all significant subsidiaries directly or indirectly controlled by TUI AG. Control exists where TUI AG has power over the relevant activities, is exposed to variable returns or has rights to the returns, and has the ability to affect those variable returns through its power over the investee.

As a rule, the control is exercised by means of a direct or indirect majority of voting rights. If the TUI Group holds less than the majority of voting rights in a shareholding, it may exercise control due to contractual agreements or similar arrangements.

In assessing control, the existence and effect of potential voting rights that are currently exercisable or convertible are taken into account. Consolidation of subsidiaries starts from the date TUI gains control. When TUI ceases to control the corresponding companies, they are removed from the group of consolidated companies.

The consolidated financial statements are prepared from the separate or single-entity financial statements of TUI AG and its subsidiaries, drawn up on the basis of uniform accounting, measurement and consolidation methods and usually audited or reviewed by auditors.

Associates for which the TUI Group is able to exert significant influence over the financial and operating policy decisions within these companies are accounted for using the equity method. As a rule, significant influence is assumed if TUI AG directly or indirectly holds voting rights of 20 to less than 50 per cent.

Stakes in joint ventures are also measured using the equity method. A joint venture is a company managed jointly by the TUI Group with one or several partners based on a contractual agreement, in which the parties that jointly exercise control have rights to the company's net assets. Joint ventures also include companies in which the TUI Group holds a majority or minority of voting rights but in which decisions about the relevant activities may only be taken on an unanimous basis due to contractual agreements.

The dates as of which associates and joint ventures are included in or removed from the group of companies measured at equity are determined in a manner consistent with that applied to subsidiaries. At equity measurement in each case is based on the last annual financial statements available or the interim financial statements as at 30 September if the balance sheet dates differ from TUI AG's balance sheet date. This affects 34 companies with a financial year from 1 January to 31 December and two companies with a financial year from 1 April to 31 March of the following year.

GROUP OF CONSOLIDATED COMPANIES

In financial year 2017, the consolidated financial statements included a total of 259 subsidiaries. The table below presents changes in the number of companies since 1 October 2016.

Development of the group of consolidated companies* and the Group companies measured at equity

	Consolidated subsidiaries	Associates	Joint ventures
Balance at 30 Sep 2016	**417**	**13**	**27**
Additions	9	–	2
Incorporation	6	–	–
Acquisition	3	–	2
Disposals	167	–	1
Liquidation	21	–	–
Sale	134	–	–
Merger	7	–	1
Termination of business operations	5	–	–
Balance at 30 Sep 2017	**259**	**13**	**28**

* Excl. TUI AG

TUI AG's direct and indirect subsidiaries, associates and joint ventures are listed under Other Notes – TUI Group Shareholdings.

58 subsidiaries were not included in the consolidated financial statements. Even when taken together, these companies are of minor significance to the presentation of a true and fair view of the financial position and performance of the Group.

The effects of the changes in the group of consolidated companies in financial year 2017 on financial years 2017 and 2016 are outlined below. While the value of companies deconsolidated in financial year 2017 posted in the statement of financial position is carried as per the closing date for the previous period, items in the income statement are also shown for financial year 2017 due to prorated effects. Developments already reported in the items Result from discontinued operations, Assets held for sale or Liabilities related to assets held for sale are not included in the tables below but are shown in the section on 'Discontinued operations'.

Impact of changes in the group of consolidated companies on the statement of financial position

	Additions	Disposals
€ million	**30 Sep 2017**	30 Sep 2016
Non-current assets	74.3	6.0
Current assets	9.0	0.3
Current other liabilities	51.3	0.2

Impact of changes in the group of consolidated companies on the consolidated income statement

	Additions	Disposals	
€ million	2017	2017	2016
Turnover with third parties	424.5	–	1.5
Cost of sales and administrative expenses	427.2	–	1.3
Other income / other expenses	1.3	0.4	–
Share of result of joint ventures and associates	–1.4	–	–
Earnings before income taxes	**–2.8**	**0.4**	**0.2**
Income taxes	–	–	–
Group profit	**–2.8**	**0.4**	**0.2**

Acquisitions – divestments – discontinued operations

ACQUISITIONS

In financial year 2017, the trade and assets of 20 travel agencies were acquired. Further, TUI acquired 99.99 % of the shares in French tour operator Transat France S.A., Ivry-sur-Seine, France (Transat) on 31 October 2016. The aim of the acquisition is to increase market presence in France. The acquisition included the purchase of the majority stakes in Transat Développement SAS, Ivry-sur-Seine, France, and in Tourgreece Tourism Enterprise A.E., Athens, Greece. The latter was sold again by the reporting date. The consideration transferred by TUI Group for all acquisitions consists exclusively of cash and totals € 64.0 m for Transat and € 3.9 m for the travel agencies.

The difference of € 74.9 m, including € 72.2 m for Transat, between the consideration transferred and the acquired, revalued net assets was carried as goodwill. This goodwill essentially contributes to future earnings and cost savings potential.

Statement of financial position of Transat Group as at the date of first-time consolidation

€ million	Fair value at date of first-time consolidation
Other intangible assets	19.2
Property, plant and equipment	8.0
Fixed assets	**27.2**
Trade receivables	18.7
Other assets	14.2
Cash and cash equivalents	17.7
Deferred tax liabilities	6.7
Other provisions	5.8
Other Liabilities	73.5
Equity	**–8.2**

At the time of acquisition, the gross amount of trade receivables amounted to € 19.2 m, the value adjustments to € 0.5 m. The gross amount of other assets amounted to € 17.2 m, the value adjustment to € 3.0 m.

Measurement of the acquired assets and liabilities in the framework of the purchase price allocation for the acquisition of Transat Group was completed in financial year 2017.

From November 2016 to September 2017, Transat generated turnover of € 422.4 m and a profit contribution of € 0.3 m. If Transat had already been consolidated on 1 October 2016, TUI Group's turnover would have been € 26.1 m higher and the after-tax result € 1.2 m lower in the reporting period.

In the present financial statements, the purchase price allocations for the 18 travel agencies acquired in financial year 2016 and for Aeolos Group were finalised within the twelve-month period provided under IFRS 3 without a major impact on the consolidated statement of financial position.

DIVESTMENTS

The divestment of Specialist Group is explained in the section on Discontinued operations. The effects of further divestments on TUI Group's net assets, financial position and results of operations were not material.

DISCONTINUED OPERATIONS

The result from discontinued operations includes subsequent expenses of € 2.0 m and income of € 6.7 m as well as income taxes of € 2.5 m from discontinued operations sold in the prior year.

In the prior year, the result from discontinued operations comprised the result of Hotelbeds Group, sold on 12 September 2016, and LateRooms Group, sold on 6 October 2015.

In the prior year, TUI AG had decided to sell the Specialist Group as there was limited linkage to TUI Group's remaining business and thus very little potential for integration into the Group's strategy. In the reporting period, the Specialist Group only comprised the tour operators combined under the Travelopia brand, offering in particular expedition travel, luxury tours, sporting events, student travel and sailing trips. The language schools business was sold in financial year 2016.

The sale of Travelopia to Kohlberg Kravis Roberts & Co. L.P. was completed on 15 June 2017. The result from the sale is calculated as follows:

Result from the sale of the Specialist Group

€ million	**2017**
Purchase price	444.6
Carrying amount of net assets sold	– 441.7
Reclassification of fx differences	–71.1
Reclassifications of hedging reserves	– 2.0
Costs of disposal, additional charges and guarantees	–15.1
Profit on sale	**– 85.3**

The purchase price comprises the cash received for the shares in the companies of Travelopia as well as the price for two loans granted to Travelopia.

The result from the discontinued operation Specialist Group generated until the date of disposal is reported separately from the income and expenses of continuing operations in the consolidated income statement, shown in a separate line as 'Result from discontinued operations'. As the Specialist Group was already classified as discontinued operation in the prior year, there is no restatement of the prior year income statement.

Income statement of the discontinued operation Specialist Group

€ million	2017	2016
Turnover	829.0	1,371.4
Cost of sales	738.0	1,217.1
Gross profit	**91.0**	**154.3**
Administrative expenses	98.6	177.0
Other income	0.1	7.0
Other expenses	0.2	20.7
Impairment of goodwill	47.4	–
Financial income	0.2	0.6
Financial expenses	1.2	1.1
Earnings before income taxes from the discontinued operation Specialist Group	**– 56.1**	**– 36.9**
Income taxes	10.3	– 2.7
Operating result from the discontinued operation Specialist Group	**– 66.4**	**– 34.2**
Result from the sale of the discontinued operation Specialist Group	– 85.3	–
Result from the discontinued operation Specialist Group	**–151.7**	**– 34.2**
Result from the discontinued operation Specialist Group attributable to shareholders of TUI AG	–151.7	– 34.1
Result from the discontinued operation Specialist Group attributable to non-controlling interest	–	– 0.1

While the prior-year reference period comprised the full financial year, the income statement for the completed financial year only comprises the period until 15 June 2017. The turnover generated in the prior-year reference period comprises the turnover from language travel until the date of disposal of these activities and the turnover generated in connection with the rugby and cricket world championships held last year. The carve-out of Travelopia from TUI Group's distribution activities resulted in a further decrease in turnover in the financial year. The overall cost of sales declined accordingly. On the other hand, turnover from sailing trips in particular increased. A further improvement in the result was driven by the suspension of depreciation since 30 September 2016 in line with IFRS 5.

The measurement of the discontinued operation with the agreed purchase price less costs of disposal as at 31 March 2017 leaded to an impairment of € 47.4 m, shown in the income statement of the Specialist Group as impairment of goodwill.

The consolidated cash flow statement shows the cash flows of the overall Group including the discontinued operations. The table below provides a separate presentation of the cash flows of the discontinued operation Specialist Group. Cash flows from intercompany relationships, in particular financing schemes, dividends, business transfers and sales of companies, are not taken into account. The cash outflow from investing activities includes the cash of € 423.6 m, which was held by the Specialist Group on disposal.

Condensed cash flow statement of the discontinued operation Specialist Group

€ million	2017	2016
Cash inflow from operating activities	55.9	42.1
Cash outflow from investing activities	– 453.1	– 80.6
Cash outflow from financing activities	– 4.2	– 3.9

FOREIGN EXCHANGE TRANSLATION

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rates 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 denominated in foreign currencies at the foreign exchange rate at the date of the transaction are shown in the income statement, with the exception of gains and losses to be recognised in equity as qualifying cash flow hedges.

The annual financial statements of companies are prepared in the respective functional currency. The functional currency of a company is the currency of the primary economic environment in which the company operates. With the exception of a small number of companies, the functional currencies of all subsidiaries correspond to the currency of the country of incorporation of the respective subsidiary.

Where subsidiaries prepare their financial statements in functional currencies other than the Euro, being the Group's reporting currency, the assets, liabilities and notes to the statement of financial position are translated at the 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 are treated as assets and liabilities of the foreign company and also translated at the rate of exchange applicable at the balance sheet date. The items of the income statement and hence the result for the year shown in the income statement are translated at the average rate of the month in which the respective transaction takes place.

Differences arising on the translation of the annual financial statements of foreign subsidiaries are reported outside profit and loss and separately shown as foreign exchange differences in the consolidated statement of changes in equity. When a foreign company or operation is sold, any foreign exchange differences previously included in equity outside profit and loss are recognised as a gain or loss from disposal in the income statement through profit and loss.

Translation differences relating to non-monetary items with changes in their fair values eliminated through profit and loss (e. g. equity instruments measured at their fair value through profit and loss) are included in the income statement. In contrast, translation differences for non-monetary items with changes in their fair values taken to equity (e. g. equity instruments classified as available for sale) are included in revenue reserves.

The TUI Group did not hold any subsidiaries operating in hyperinflationary economies in the completed financial year, nor in the previous year.

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

NET INVESTMENT IN A FOREIGN OPERATION

Monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, essentially constitute part of a net investment in this foreign operation. Foreign exchange differences from the translation of these monetary items are recognised in other comprehensive income. TUI Group has granted loans of this type in particular to hotel companies in Turkey and North Africa.

Exchange rates of currencies of relevance to the TUI Group

	Closing rate		Annual average rate	
1 € equivalent	**30 Sep 2017**	30 Sep 2016	**2017**	2016
Sterling	0.88	0.86	0.87	0.78
US dollar	1.18	1.12	1.07	1.11
Swiss franc	1.15	1.09	1.08	1.09
Swedish krona	9.65	9.62	9.69	9.35

CONSOLIDATION METHODS

The recognition of the net assets of acquired businesses is based on the acquisition method. Accordingly all identifiable assets and all liabilities assumed are measured at fair value as of the acquisition date. Subsequently, the consideration for the stake is measured at fair value and eliminated against the acquiree's revalued equity attributable to the acquired share. As in the prior year, the option to measure the non-controlling interests at their fair value (full goodwill method) was not used.

Any excess of acquisition costs over net assets acquired is capitalised as goodwill and recognised as an asset for the acquired subsidiary in accordance with IFRS 3. Any negative goodwill is recognised immediately in profit and loss and presented as other income.

When additional shares are purchased after obtaining control, the difference between the purchase price and the carrying amount of the stakes acquired is recognised directly in equity. The effects from sales of stakes not entailing a loss of control are also recognised directly in equity. By contrast, when control is obtained or lost, gains or losses are recognised in profit and loss. In the case of business combination achieved in stages (where the acquirer held an equity interest before he obtained control), the equity stake previously held in the acquired company is revalued at the fair value applicable at the acquisition date and the resulting gain or loss is recognised in profit or loss. For transactions involving a loss of control, the profit or loss does not only comprise the difference between the carrying amounts of the disposed stakes and the consideration received but also the result from the revaluation of the remaining shares.

On loss of control of a subsidiary the gain or loss on derecognition will be calculated as the difference of the fair value of the consideration plus the fair value of any investment retained in the former subsidiary less the share of the book value of the net assets of the subsidiary. Any gains or losses previously recognised in equity from currency translations or the valuation of financial assets and liabilities will be reclassified to the income statement. When a subsidiary is sold, any goodwill allocated to the respective subsidiary is taken into account in the calculation of the profit or loss of disposal.

The Group's associates and joint ventures are measured at equity and included at the cost to purchase as at the acquisition date. The Group's stake in associates and joint ventures includes the goodwill arising from the respective acquisition.

The Group's share in profits and losses of associates and joint ventures is carried in the income statement as from the date of acquisition (Share of result from joint ventures and associates), while the Group's share in the total other comprehensive income is shown in its revenue reserves. The accumulated changes arising after the acquisition are shown in the carrying amount of the shareholding. When the share in the loss of an associated company or joint venture equals or exceeds the Group's original stake in this company, including other unsecured receivables, no further losses are recognised. Any losses exceeding that stake are only recognised to the extent that obligations have been assumed or payments have been made for the associated company or joint venture.

Where the accounting and measurement methods applied by associates and joint ventures differ from the uniform accounting rules applied in the Group, the differences are adjusted.

Intercompany receivables and payables or provisions are eliminated, as are intercompany turnover, other income and the corresponding expenses. Intercompany results from intercompany deliveries and services are reversed through profit and loss, taking account of deferred taxes. However, intercompany losses are an indicator that an asset may be impaired. Intercompany profits from transactions with companies measured at equity are eliminated in relation to the Group's stake in the company. Intercompany profits from transactions with companies measured at equity are eliminated in relation to the Group's stake in the companies unless these intercompany profits result from the usual deliveries effected or services rendered between Group companies. Intercompany transactions are provided at arm's length.

Accounting and measurement methods

The consolidated financial statements were prepared according to the historical cost principle, with the exception of certain financial instruments such as financial assets and derivatives held for trading or available for sale as well as plan assets from externally funded defined-benefit obligations held at fair value at the balance sheet date.

The financial statements of the consolidated subsidiaries are prepared in accordance with uniform accounting and measurement principles. The amounts recognised in the consolidated financial statements are not determined by tax regulations but solely by the commercial presentation of the financial position and performance as set out in the rules of the IASB.

TURNOVER RECOGNITION

Turnover and other income is recognised upon delivery of the service or assets and hence upon transfer of the risk.

The commission fees received by travel agencies for package tours are recognised once the travel agencies have performed their contractual obligations towards the tour operator. As a rule, this condition is met upon payment by the customers or, at the latest, at the date of departure. The services of tour operators mainly consist in organising and coordinating package tours. Turnover from the organisation of tours is therefore recognised in full when the customer departs. Turnover from individual travel modules booked by the customer directly with airlines, hotel companies or incoming agencies is recognised when the customers use the services concerned. Income from non-completed cruises is recognised according to the proportion of contract performance at the balance sheet date. The percentage of completion is determined as the ratio between travel days completed by the balance sheet date and overall travel days.

GOODWILL AND OTHER INTANGIBLE ASSETS

Acquired intangible assets are carried at cost. Internally-generated intangible assets are capitalised at cost where an inflow of future economic benefits for the Group is probable and can be reliably measured. The cost to produce comprises direct costs and directly allocable overheads. Intangible assets with a finite service life are amortised over the expected useful life.

Intangible assets acquired as a result of business combinations, such as customer base or trademark rights, are included at their fair value as at the date of acquisition and are amortised on a straight-line basis.

Useful lives of intangible assets

	Useful lives
Brands, licences and other rights	15 to 20 years
Transport- and leasing contracts	12 to 20 years
Computer Software	3 to 10 years
Customer base as at acquisiton date	7 to 15 years

If there are any events or indications suggesting potential impairment, the amortised carrying amount of the intangible asset is compared with the recoverable amount. Any losses in value going beyond wear-and-tear depreciation are taken into account through the recognition of impairment charges.

Depending on the functional area of the intangible asset, amortisation and impairment charges are included under cost of sales or administrative expenses.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually. In addition, impairment tests are conducted if there are any events or indications suggesting potential impairment. The TUI Group's intangible assets with an indefinite useful life consist exclusively of goodwill.

Impairment tests for goodwill are conducted on the basis of cash generating units.

Impairment charges are recognised where the carrying amount of the tested units plus the allocated goodwill exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and the present value of future cash flows based on continued use (value in use). The fair value less costs of disposal corresponds to the amount that could be generated between knowledgeable, willing, independent business partners after deduction of the costs of disposal.

Impairment of goodwill is shown separately in the consolidated income statement.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at amortised cost. The costs to purchase include costs to bring the asset to a working condition. The costs to produce are determined on the basis of direct costs and directly attributable indirect costs and depreciation.

Borrowing costs directly associated with the acquisition, construction or production of qualifying assets are included in the costs to acquire or produce these assets until the assets are ready for their intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the underlying capitalisation rate is determined on the basis of the specific borrowing cost; in all other cases the weighted average of the borrowing costs applicable to the borrowings outstanding is applied.

Depreciation of property, plant and equipment is based on the straight-line method, based on the customary useful lives. The useful economic lives are as follows:

Useful lives of property, plant and equipment

	Useful lives
Hotel buildings	30 to 40 years
Other buildings	25 to 50 years
Cruise ships	30 to 40 years
Aircraft	
Fuselages and engines	22 to 25 years
Engine overhaul	depending on intervals, up to 12 years
Major overhaul	depending on intervals, up to 12 years
Spare parts	up to 12 years
Operating and business equipment	3 to 10 years

Moreover, the level of depreciation is determined by the residual values recoverable at the end of the useful life of an asset. The residual value assumed in first-time recognition for cruise ships and hotel complexes is up to 35 % of the acquisition costs. The determination of the depreciation of aircraft fuselages and aircraft engines in first-time recognition is based on a residual value of a maxium of 5 % of the cost of acquisition. The payments made under a power by the hour arrangement relating to maintenance overhauls are capitalised as PPE under construction up to a maintenance event at which point the cost is transferred to the appropriate PPE category.

Both the useful lives and residual values are reviewed on an annual basis when preparing the Group financial statements. The review of the residual values is based on comparable assets at the end of their useful lives as at the current point in time. Any adjustments required are recognised as a correction of depreciation over the remaining useful life of the asset. The adjustment of depreciation is recognised retrospectively for the entire financial year in which the review has taken place. Where the review results in an increase in the residual value so that it exceeds the remaining net carrying amount of the asset, depreciation is suspended. In this case, the amounts are not written back.

Any losses in value going beyond wear-and-tear depreciation are taken into account through the recognition of impairment losses. If there are any events or indications suggesting impairment, the required impairment test is performed to compare the carrying amount of an asset with the recoverable amount.

Investment grants received are shown as reductions in the costs to purchase or produce items of property, plant or equipment where these grants are directly allocable to individual items. Where a direct allocation of grants is not possible, the grants and subsidies received are included as deferred income under other liabilities and reversed in accordance with the use of the investment project.

LEASES

FINANCE LEASES

In accordance with IAS 17, leased property, plant and equipment in which the TUI Group assumes substantially all the risks and rewards of ownership is capitalised. Capitalisation is based on the fair value of the asset or the present value of the minimum lease payments, if lower. Depreciation is 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. Every lease payment is broken down into an interest portion and a redemption portion so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest portion is disclosed in the income statement through profit or loss.

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 assets.

In accordance with IAS 39, financial instruments are 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, financial assets held to maturity and other financial liabilities measured at amortised cost using the effective interest method (financial liabilities at amortised cost).

In terms of financial instruments measured at fair value through profit and loss, the TUI Group holds derivative financial instruments mainly to be classified as held for trading as they do not meet the criteria as hedges in the framework of a hedging relationship according to IAS 39. The fair value option is not exercised. In addition, the TUI Group holds financial assets in the loans and receivables and available for sale categories. However, the present financial statements do not include any financial assets held to maturity.

In financial year 2017 as well as in the prior year, no significant reclassifications were made within the individual measurement categories.

PRIMARY FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Primary financial assets are recognised at the value as at the trading date on which the Group commits to buy the asset. Primary financial assets are classified as loans and receivables or as financial assets available for sale when recognised for the first time. Loans and receivables as well as financial assets available for sale are initially recognised at fair value plus transaction costs.

Where objective information indicates that impairment charges are required, e. g. substantial financial difficulties of the counterparty, payment delays or adverse changes in regional industry conditions expected to impact the solvency of the Group's borrowers in the light of past experience, impairment charges are recognised at an amount corresponding to the expected loss. Impairment charges and reversals of impairment charges are included under cost of sales, administrative expenses or financial expenses, depending on the nature of the transaction.

Financial assets available for sale are non-derivative financial assets either individually expressly assigned to this category or not allocable to any other category of financial assets. Within the TUI Group, they consist of investments in affiliated, non-consolidated subsidiaries, trade investments and other securities. They are allocated to non-current assets unless management intends to sell them within twelve months of the balance sheet date.

Financial assets available for sale are measured at their fair value upon initial recognition. Changes in the fair value are included directly in equity until the disposal of the assets. If there is objective evidence of impairment, an impairment loss is taken through profit and loss. Objective evidence may, in particular, be substantial financial difficulties of the counterparty and significant changes in the technological, market, legal or economic environment.

Moreover, for equity instruments held, a significant or prolonged decline in the fair value below its cost is also objective evidence of impairment. The TUI Group concludes that a significant decline exists if the fair value falls by more than 20 % below cost. A decline is assessed as prolonged if the fair value remains below cost for more than twelve months. In the event of subsequent reversal of the impairment, the impairment included in profit or loss is not reversed for equity instruments but recognised in other comprehensive income. Where a listed market price in an active market is not available for shares held in companies and other methods to determine an objective market value are not applicable, these equity instruments are measured at cost.

As a matter of principle, the foreign exchange differences resulting from the translation of trade accounts payable are reported as a correction of the cost of sales. Foreign exchange differences from the translation of liabilities not resulting from normal operating processes are reported under other income / other expenses, financial expenses / income or administrative expenses, depending on the nature of the underlying liability.

A derecognition of assets is primarily recognised as at the date on which the rights for payments from the asset expire or are transferred and therefore as at the date essentially all risks and rewards of ownership are transferred.

Primary financial liabilities are included in the consolidated statement of financial position if an obligation exists to transfer cash and cash equivalents or other financial assets to another party. First-time recognition of a primary liability is recognised at its fair value. For loans taken out, the nominal amount received is reduced by discounts obtained and borrowing costs paid. In the framework of follow-up measurement, primary financial liabilities are measured at amortised cost based on the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

At initial measurement, derivative financial instruments are measured at the fair value attributable to them on the date the contract is entered into. Subsequent re-measurement is also recognised at the fair value applicable at the respective balance sheet date. Where derivative financial instruments are not part in the framework of IAS 39 of a hedge in connection with hedge accounting, they are classified as held for trading.

The method used to recognise profits and losses depends on whether the derivative financial instrument has been classified as a hedge and on the type of underlying hedged item. Changes in the fair values of derivative financial instruments are recognised in profit and loss unless they are classified as a hedge in accordance with IAS 39. If they are classified as an effective hedge in accordance with IAS 39, the transaction is recognised as a hedge.

The TUI Group applies the hedge accounting provisions relating to hedging of balance sheet items and future cash flows. Depending on the nature of the underlying transaction, the Group classifies derivative financial instruments either as fair value hedges against exposure to changes in the fair value of assets or liabilities or as cash flow hedges against variability in cash flows from highly probable future transactions.

Upon conclusion of the transaction, the Group documents the hedge relationship between the hedge and the underlying item, the risk management goal and the underlying strategy. In addition, a record is kept of the assessment, both at the beginning of the hedge relationship and on a continual basis, as to whether the derivatives used for the hedge are highly effective in compensating for the changes in the fair values or cash flows of the underlying transactions.

Changes in the fair value of derivatives used as fair value hedges for the recognised assets or liabilities are recognised through profit and loss. Moreover, the carrying amounts of the underlying transactions are adjusted through profit and loss for the gains or losses resulting from the hedged risk.

The effective portion of changes in the fair value of derivatives forming cash flow hedges is recognised in equity. Any ineffective portion of such changes in the fair value, by contrast, is recognised immediately in the income statement through profit and loss. Amounts taken to equity are reclassified to the income statement and included as income or expenses in the period in which the hedged item has an effect on results.

If a hedge expires, is sold or no longer meets the criteria of IAS 39 for hedge accounting, the cumulative gain or loss remains in equity and is only recognised in the income statement through profit and loss when the originally hedged future transaction occurs. If the future transaction is no longer expected to take place, the cumulative gains or losses recognised directly in equity are recognised immediately through profit and loss.

INVENTORIES

The measurement method applied to similar inventory items is the weighted average cost formula.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, call deposits, other current highly liquid financial assets with an original term of a maximum of three months and current accounts. Overdrawn current accounts are shown as liabilities to banks under current financial liabilities.

EQUITY

Ordinary shares are classified as equity. Costs directly allocable to the issue of new shares or conversion options are taken to equity on a net after-tax basis as a deduction from the issuance proceeds.

OWN SHARES

The group's holdings in its own equity instruments are shown as deductions from shareholders' equity at cost, including directly attributable transaction costs. No gain or loss is recognised in the income statement on the purchase or sale of shares. Any difference between the proceeds from sale and the original cost are taken to reserves.

PENSION PROVISIONS

The pension provision recognised for defined benefit plans corresponds to the net present value of the defined benefit obligations (DBOs) as at the balance sheet date less the fair value of the plan assets. If the value of the plan assets exceeds the value of the DBO, the excess amount is shown within other assets. Measurement of such an asset is limited to the net present value of the value in use in the form of reimbursements from the plan or reductions in future contribution payments. The DBOs are calculated annually by independent actuaries using the projected unit credit method.

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 are recognised under staff costs when they fall due.

OTHER PROVISIONS

Other provisions are formed when the Group has a current legal or constructive obligation as a result of a past event, where in addition it is probable that assets will be impacted by the settlement of the obligation and the level of the provision can be reliably determined.

Where a large number of similar obligations exist, the probability of a charge over assets is determined on the basis of this group of obligations. A provision is also recognised if the probability of a charge over assets is low in relation to an individual obligation contained in this group.

Provisions are measured at the present value of the expected expenses, taking account of a pre-tax interest rate, reflecting current market assessments of the time value of money and the risks specific to the liability. Risks already taken into account in estimating future cash flows do not affect the discount rate. Increases in provisions due to accretion of interest are recognised as interest expenses through profit or loss.

DEFERRED TAXES

Expected tax savings from the use of tax losses carried forward assessed as recoverable in the future are recognised as deferred tax assets. Regardless of the unlimited ability to carry German tax losses forward which continues to exist, the annual utilisation is limited by the minimum taxation. Foreign tax losses carried forward frequently have to be used within a given country-specific time limit and are subject to restrictions concerning the use of these losses carried forward for profits on ordinary activities, which are taken into account accordingly in the measurement.

Income tax is directly charged or credited to equity if the tax relates to items directly credited or charged to equity in the same period or some other period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference or an unused tax loss can be utilised.

Deferred taxes are measured at the tax rates and tax provisions applicable at the balance sheet date or adopted by law and expected to be applicable at the date of recognition of the deferred tax asset or the payment of the deferred tax liability.

CURRENT INCOME TAXES

Deferred and current income tax liabilities are offset against the corresponding tax assets if they exist in the same fiscal territory and have the same nature and maturity.

SHARE-BASED PAYMENTS

All share-based payment schemes in the Group are cash-settled or equity-settled.

For cash-settled transactions, the resulting liability for the Group is charged to expenses at its fair value as at the date of the performance of the service by the beneficiary. Until settlement of the liability, the fair value of the liability is re-measured at every closing date and all changes in the fair value are recognised through profit and loss.

For equity-settled transactions the fair value of the awards granted is recognised under staff costs with a corresponding direct increase in equity. The fair value is determined at the point when the awards are granted and spread over the vesting period during which the employees become entitled to the awards. The method for the calculation of the granted awards is described in Note 37.

SUMMARY OF SELECTED ACCOUNTING AND MEASUREMENT METHODS

The table below lists the key accounting and measurement methods used by the TUI Group.

Summary of selected measurement bases

Item in the statement of financial position	Measurement base
Assets	
Goodwill	At cost (subsequent measurement: impairment test)
Other intangible assets with definite useful lives	At amortised cost
Property, plant & equipment	At amortised cost
Joint ventures an associates	At the Group's share of the net assets of the joint ventures and associates
Financial assets	
Loans and receivables	At amortised cost
Held to maturity	Not applicable
Held for trading / Derivatives	At fair value
Available for sale	Fair value (with gains or losses recognised within other comprehensive income) or at cost
Inventory	Lower of cost and net realisable value
Trade and other receivables	At amortised cost
Cash and cash equivalents	At cost
Assets held for sale	Lower of cost and fair value less cost of disposal
Liabilities and Provisions	
Loans and borrowings	At amortised cost
Provision for pensions	Projected unit credit method
Other provisions	Present value of the settlement amount
Financial liabilities	
Non-derivative financial liabilities	At amortised cost
Derivative financial liabilities	At fair value
Payables, trade and other liabilities	At amortised cost

Key estimates and judgements

The presentation of the assets, liabilities, provisions and contingent liabilities shown in the consolidated financial statements is based on estimates and judgements. Any uncertainties are appropriately taken into account in determining the values.

All estimates and judgements are based on the conditions and assessments as at the balance sheet date. In evaluating the future development of business, reasonable assumptions were made regarding the expected future economic environment in the business areas and regions in which the Group operates.

Estimates and judgements that may have a material impact on the amounts reported as assets and liabilities in the TUI Group are mainly related to the following balance sheet-related facts and circumstances:

- Establishment of assumptions for impairment tests, in particular for goodwill,
- Determination of the fair values for acquisitions of companies and determination of the useful lives of acquired intangible assets,
- Determination of useful lives and residual carrying amounts of property, plant and equipment,
- Determination of actuarial assumptions to measure pension obligations,
- Recognition and measurement of other provisions,
- Recoverability of future tax savings from tax losses carried forward and tax-deductible temporary differences

- Measurement of tax risks
- Recoverable amounts of touristic prepayments.

Despite careful preparation of the estimates, actual results may differ from the estimate. In such cases, the assumptions and the carrying amounts of the assets and liabilities concerned, if necessary, are adjusted accordingly. As a matter of principle, changes in estimates are taken into account in the financial year in which the changes have occurred and in future periods.

GOODWILL

The goodwill reported as at 30 September 2017 has a carrying amount of € 2,889.5 m (previous year € 2,853.5 m). The determination of the recoverable amount of a Cash Generating Unit (CGU) for the annual impairment test requires estimates and judgement with regard to the methodology used and the assumptions, which may have a considerable effect on the recoverable amount and the level of a potential impairment. They relate, in particular, to the weighted average cost of capital (WACC) after income taxes, used as the discounting basis, the growth rate in perpetuity and the forecasts for future cash flows including the underlying budget assumptions based on corporate planning. Changes in these assumptions may have a substantial impact on the recoverable amount and the level of a potential impairment.

ACQUISITION OF COMPANIES AND INTANGIBLE ASSETS

In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In this context, cash flow-based methods are regularly used. Depending on the assumptions underlying such methods, different results may be produced. In particular, some judgement is required in estimating the economic useful lives of intangible assets and determining the fair values of contingent liabilities.

Detailed information on acquisitions of companies or useful lives of intangible assets is provided in the section 'Acquisitions – divestments – discontinued operation' in the note on 'Principles and methods of consolidation' and in the section on 'Goodwill and other intangible assets' of the note 'Accounting and measurement methods'.

PROPERTY, PLANT AND EQUIPMENT

The measurement of wear-and-tear to property, plant and equipment items entails estimates. The carrying amount of property, plant and equipment as at 30 September 2017 totals € 4,253.7 m (previous year € 3,714.5 m). In order to review the amounts carried, an evaluation is carried out on a regular basis to assess whether there are any indications of a potential impairment. These indications relate to a number of areas and factors, e. g. the market-related or technical environment but also physical condition. If any such indication exists, management must estimate the recoverable amount on the basis of expected cash flows and appropriate interest rates. Further, essential estimates and judgements include the definition of economic useful lives and the residual values of items of property, plant and equipment which may be recovered.

More detailed information on the useful lives and residual values of property, plant and equipment items is provided in the section 'Property, plant and equipment' in the note 'Accounting and measurement methods'.

PENSION PROVISIONS

As at 30 September 2017, the carrying amount of provisions for pensions and similar obligations totals € 1,127.4 m (previous year € 1,450.9 m). For those pension plans where the plan assets exceed the obligation, other assets amounting to € 57.0 m are shown as at 30 September 2017 (prior year € 36.2 m).

In order to determine the obligations under defined benefit pension schemes, actuarial calculations are used which rely on underlying assumptions concerning life expectancy and the discount rate.

At the balance sheet date, the fair value of the plan assets totals € 2,631.3 m (previous year € 2,740.0 m). As assets classified as plan assets are never available for short-term sale, the fair values of these plan assets may change significantly up to the realisation date.

Detailed information on actuarial assumptions is provided under Note 29.

OTHER PROVISIONS

As at 30 September 2017, other provisions of € 1,151.3 m (previous year € 1,177.8 m) are reported. When recognising and measuring provisions, assumptions are required about probability of occurrence, maturity and level of risk.

Determining whether a current obligation exists is usually based on review by internal or external experts. The amount of provision is based on expected expenses, and is either calculated by assessing the specific case in the light of empirical values, outcomes from comparable circumstances, or else estimated by experts. Due to the uncertainties associated with assessment, actual expenses may deviate from estimates so that unexpected charges may result.

More detailed information on other provisions is provided in the Notes to the statement of financial position in Note 30.

DEFERRED TAX ASSETS

As at 30 September 2017, deferred tax assets totalling € 323.7 m (previous year € 344.7 m) were recognised. Prior to offsetting against deferred tax liabilities, deferred tax assets total € 646.5 m, included an amount of € 198.1 m (previous year € 211.5 m) for recognised losses carried forward. The assessment of the recoverability of deferred tax assets is based on the ability of the respective Group company to generate sufficient taxable income. TUI therefore assesses at every balance sheet date whether the recoverability of expected future tax savings is sufficiently probable in order to recognise deferred tax assets. The assessment is based on various factors including internal forecasts regarding the future tax asset situation of the Group company. If the assessment of the recoverability of future deferred tax assets changes, impairment charges may be recognised, if necessary, on the deferred tax assets.

More detailed information on deferred tax assets is available in the Notes to the statement of financial position in Note 20.

INCOME TAXES

The Group is liable to pay income taxes in various countries. Key estimates are required when determining income tax liabilities, including the probability, the timing and the size of any amounts that may become payable. For certain transactions and calculations the final tax charge cannot be determined during the ordinary course of business. After taking appropriate external advice, the Group makes provisions or discloses contingencies for uncertain tax positions based on the probable or possible level of additional taxes that might be incurred. The level of obligations for expected tax audits is based on an estimation of whether and to what extent additional income taxes will be due. Judgements are corrected, if necessary, in the period in which the final tax charge is determined.

RECOVERABLE AMOUNTS OF TOURISTIC PREPAYMENTS

At 30 September 2017, the carrying amount of touristic prepayments totals € 758.6 m (previous year € 724.2 m). The assessment of the recoverable amounts of touristic prepayments made to hoteliers requires judgement about the volume of future trading with hoteliers and the credit worthiness of those hoteliers. To assess the recoverability of touristic prepayments, TUI considers the financial strength of those hoteliers, the quality of the hotels as well as the demand for each hotel and the relevant destination during the past and in coming seasons.

CHANGES IN ESTIMATES

Until the end of financial year 2016, new aircraft and engines were depreciated to a projected residual value in line with market terms over a period of up to 18 years.

In the framework of an adjusted fleet strategy, the expected useful lives of aircraft and engines used by TUI Group have changed. Aircraft and engines will therefore be depreciated over a period of up to 25 years to a residual value of a maximum of 5 per cent, depending on the aircraft type, with effect from 1 October 2016.

In line with IAS 8, the adjustment of the useful lives and associated residual values was carried out on a prospective basis as the revision of an accounting estimate. Retroactive changes of prior reporting periods were therefore not recognised.

Due to the revision of the accounting estimate relating to useful lives, scheduled depreciation declined by €20.3 m in financial year 2017. In line with the Group's plans, the adjustments of useful lives and residual values will result in a decline in depreciation of around €25 m in the next three financial years.

Segment reporting

Notes on the segments

The identification of operating segments is based on the internal organisational and reporting structure primarily built around the different products and services as well as a geographical structure within the TUI Group. Allocation of individual organisational entities to operating segments is exclusively based on economic criteria, irrespective of the participation structure under company law. The segments are independently managed by those in charge, who regularly receive separate financial information for each segment. They regularly report to the Group Executive Committee, which consists of six Executive Board members and six other executives. The legally binding decision regarding the use of resources is taken by the Executive Board. The TUI Group Executive Board has therefore been identified as the Chief Operating Decision Maker (CODM) in accordance with IFRS 8.

The Northern Region segment comprises the tour operators and airlines in the UK, Ireland and the Nordic countries and the stake in the tour operation business of the Canadian company Sunwing as well as the joint venture TUI Russia. This segment also includes the tour operators Crystal Ski and TUI Lakes & Mountains, formerly Thomson Lakes & Mountains, which play a major role in securing the load factor for our aircraft fleet in the UK, especially in winter. The hotel operator Blue Diamond Hotels & Resorts Inc., St Michael, Barbados, which had also been carried under this segment in the prior year, was integrated into the Hotels & Resorts segment in the reporting period and is now carried under that segment. Moreover, the UK cruise business Marella Cruises, formerly Thomson Cruises, was transferred from the Northern Region segment to the Cruises segment in financial year 2017. The prior year's numbers have been restated to reflect the changes in the segments.

The Central Region segment comprises the tour operators and airlines in Germany and tour operators in Austria, Poland and Switzerland.

The Western Region segment comprises the tour operators and airlines in Belgium and the Netherlands and tour operators in France.

The Hotels & Resorts segment comprises all Group-owned hotels and hotel shareholdings of TUI Group.

The Cruises segment consists of Hapag-Lloyd Cruises and the joint venture TUI Cruises as well as the British cruise business Marella Cruises.

The Other Tourism segment comprises the French scheduled airline Corsair, the incoming agencies and, in particular, central tourism functions such as the TUI Group's aviation management and information technology.

Apart from the above segments forming the Tourism business, the recognised items also include 'All other segments'. This segment comprises the business operations for new markets and in particular the central corporate functions and interim holdings of TUI Group and the Group's real estate companies.

In the financial year 2017, discontinued operations include the turnover and profit contributions of Specialist Group until it was sold on 15 June 2017. In the prior year, this item had also included Hotelbeds Group and LateRooms Group. For more detailed explanations of discontinued operations, we refer to the section Discontinued operations in the note 'Acquisitions – Divestments – Discontinued Operations'.

Notes to the segment data

The selection of segment data presented is based on the regular internal reporting of segmented financial indicators to the Executive Board. Segment reporting discloses in particular the performance indicators EBITA and underlying EBITA, since these indicators are used for value-oriented corporate management and thus represent the consolidated performance indicator within the meaning of IFRS 8.

The TUI Group defines EBITA as earnings before interest, income taxes and goodwill impairment. EBITA includes amortisation of other intangible assets. EBITA does not include measurement effects from interest hedges and the proportionate result and measurement effects from container shipping, as the stake in Hapag-Lloyd AG, held until its sale on 10 July 2017, is a financial investment and not an operative stake from TUI AG's perspective.

In contrast to EBITA, the underlying EBITA has been adjusted for gains on disposal of financial investments, expenses in connection with restructuring measures according to IAS 37, all effects of purchase price allocations, ancillary acquisition cost and conditional purchase price payments and other expenses for and income from one-off items. The one-off items carried as adjustments are income and expense items impacting or distorting the assessment of the operating profitability of the segments and the Group due to their level and frequency. These one-off items include major restructuring and integration expenses not meeting the criteria of IAS 37, major expenses for litigation, profit and loss from the sale of aircraft and other material business transactions of a one-off nature.

Alongside this indicator, segment reporting is extended to include EBITDA and EBITDAR. In the TUI Group EBITDA is defined as earnings before interest, income taxes, goodwill impairment and amortisation and write-ups of other intangible assets, depreciation and write-ups of property, plant and equipment, investments and current assets. The amounts of amortisation and depreciation represent the net balance including write-backs. For the reconciliation from EBITDA to the indicator EBITDAR, long-term leasing and rental expenses are eliminated.

Internal and external turnover, depreciation and amortisation, impairment on other intangible assets (excluding goodwill), property, plant and equipment and investments as well as the share of result of joint ventures and associates are likewise shown for each segment, as these amounts are included when measuring EBITA. As a rule, inter-segment business transactions are based on the arm's length principle, as applied in transactions with third parties. No single external customer accounts for 10% or more of turnover.

Assets and liabilities per segment are not included in the reporting to the Executive Board and are therefore not shown in segment reporting. The only asset-related segmental indicator reported to the Executive Board is capital expenditure, which therefore is also disclosed in the segment reporting. The amounts shown represent cash capital expenditure on intangible assets and property, plant and equipment in line with the indicator reported internally. Financing transactions such as financing loans and finance lease agreements are not included in this indicator. Therefore the amount of the capital expenditure does not coincide with the additions to intangible assets and property, plant and equipment in the fixed assets and intangible assets movements. A reconciliation of the investments is presented in a separate table.

Depreciation, amortisation, impairment and write-backs relate to non-current and current assets that are split geographically and do not include goodwill impairment.

The non-current assets, which are split geographically, contain other intangible assets, property, plant and equipment and other non-current assets that do not meet the definition of financial instruments.

Segment indicators

Turnover by segment

			2017			2016
€ million	**External**	**Group**	**Total**	External restated	Group restated	Total restated
Hotels & Resorts	679.0	687.2	1,366.2	618.6	659.8	1,278.4
Cruises	815.0	0.1	815.1	703.1	0.4	703.5
Northern Region	6,601.5	35.2	6,636.7	6,564.4	50.5	6,614.9
Central Region	6,039.5	22.8	6,062.3	5,562.9	43.1	5,606.0
Western Region	3,502.2	35.6	3,537.8	2,869.9	18.9	2,888.8
Other Tourism	677.0	314.4	991.4	669.3	292.8	962.1
Consolidation	–	–1,049.7	–1,049.7	–	–995.8	–995.8
Tourism	**18,314.2**	**45.6**	**18,359.8**	**16,988.2**	**69.7**	**17,057.9**
All other segments	220.8	55.0	275.8	165.7	44.1	209.8
Consolidation	–	–100.6	–100.6	–	–113.8	–113.8
Continuing operations	**18,535.0**	**0.0**	**18,535.0**	**17,153.9**	**–**	**17,153.9**
Discontinued operations	829.0	–	829.0	2,321.6	108.9	2,430.5
Total	**19,364.0**	**0.0**	**19,364.0**	**19,475.5**	**108.9**	**19,584.4**

EBITA and underlying EBITA by segment

€ million	EBITA		Underlying EBITA	
	2017	2016 restated	**2017**	2016 restated
Hotels & Resorts	353.7	301.5	356.5	303.8
Cruises	255.6	190.9	255.6	190.9
Northern Region	309.6	362.7	345.8	383.1
Central Region	67.3	64.0	71.5	85.1
Western Region	79.4	72.1	109.2	86.1
Other Tourism	15.7	–2.9	13.4	7.9
Tourism	**1,081.3**	**988.3**	**1,152.0**	**1,056.9**
All other segments	–54.8	–90.2	–49.9	–56.4
Continuing operations	**1,026.5**	**898.1**	**1,102.1**	**1,000.5**
Discontinued operations	–22.1	14.7	–1.2	92.9
Total	**1,004.4**	**912.8**	**1,100.9**	**1,093.4**

In order to enhance comparability, EBITA from the discontinued operations does not include the result from the sale of Hotelbeds Group in financial year 2016 or the sale of the Specialist Group in the completed financial year.

Reconciliation to earnings before income taxes of the continuing operations of the TUI Group

€ million	**2017**	2016
Underlying EBITA of continuing operations	**1,102.1**	**1,000.5**
Result on disposal*	2.2	–0.8
Restructuring expense*	–23.1	–12.0
Expense from purchase price allocation*	–29.2	–41.9
Expense from other one-off items*	–25.5	–47.7
EBITA of continuing operations	**1,026.5**	**898.1**
Profit on sale of financial investment in Container Shipping	172.4	–
Loss on measurement of financial investment in Container Shipping	–	–100.3
Net interest expense and expense from measurement of interest hedges	–119.2	–179.5
Earnings before income taxes of continuing operations	**1,079.7**	**618.3**

* For a description of the adjustments please refer to the management report page 58

EBITDA and EBITDAR by segment

€ million	EBITDA 2017	EBITDA 2016 restated	Long-term leasing and rental expenses 2017	Long-term leasing and rental expenses 2016 restated	EBITDAR 2017	EBITDAR 2016 restated
Hotels & Resorts	484.5	396.5	117.4	110.1	601.9	506.6
Cruises	312.9	236.8	57.0	39.8	369.9	276.6
Northern Region	378.6	430.3	332.3	338.3	710.9	768.6
Central Region	87.6	86.3	145.8	147.8	233.4	234.1
Western Region	102.0	97.9	175.2	153.5	277.2	251.4
Other Tourism	102.3	58.2	37.5	40.3	139.8	98.5
Consolidation	–	–	–5.0	–7.5	–5.0	–7.5
Tourism	**1,467.9**	**1,306.0**	**860.2**	**822.3**	**2,328.1**	**2,128.3**
All other segments	23.0	–0.9	377.1	376.8	400.1	375.9
Consolidation	–	–	–487.3	–454.7	–487.3	–454.7
Continuing operations	**1,490.9**	**1,305.1**	**750.0**	**744.4**	**2,240.9**	**2,049.5**
Discontinued operations	–22.1	85.6	38.8	65.1	16.7	150.7
Total	**1,468.8**	**1,390.7**	**788.8**	**809.5**	**2,257.6**	**2,200.2**

Other segmental information

€ million	Amortisation (+), depreciation (+), impairment (+) and write-backs (–) of other intangible assets, property, plant and equipment, investments and current assets 2017	Amortisation (+), depreciation (+), impairment (+) and write-backs (–) of other intangible assets, property, plant and equipment, investments and current assets 2016 restated	Thereof impairment (+) of intangible assets and property, plant and equipment 2017	Thereof impairment (+) of intangible assets and property, plant and equipment 2016 restated	Thereof amortisation / depreciation of intangible assets and property, plantand equipment 2017	Thereof amortisation / depreciation of intangible assets and property, plantand equipment 2016 restated
Hotels & Resorts	130.8	95.0	36.4	2.3	98.5	93.1
Cruises	57.3	45.9	–	–	57.3	45.9
Northern Region	69.0	67.6	11.2	–	64.5	68.7
Central Region	20.3	22.3	0.3	–	21.7	22.2
Western Region	22.6	25.8	–	6.4	22.2	19.2
Other Tourism	86.6	61.1	25.2	7.8	61.4	53.3
Tourism	**386.6**	**317.7**	**73.1**	**16.5**	**325.6**	**302.4**
All other segments	77.8	89.3	–	0.8	77.4	88.3
Continuing operations	**464.4**	**407.0**	**73.1**	**17.3**	**403.0**	**390.7**
Discontinued operations	–	70.9	–	16.4	–	54.0
Total	**464.4**	**477.9**	**73.1**	**33.7**	**403.0**	**444.7**

Other segmental information

€ million	Share of result of joint ventures and associates 2017	2016 restated	Capital expenditure 2017	2016 restated
Hotels & Resorts	91.2	74.1	223.0	262.3
Cruises	135.9	100.1	281.4	45.6
Northern Region	13.2	6.0	58.5	51.5
Central Region	3.7	3.1	22.3	20.6
Western Region	0.4	0.6	31.0	21.6
Other Tourism	7.9	3.3	115.2	101.0
Tourism	**252.3**	**187.2**	**731.4**	**502.6**
All other segments	–	–	41.2	20.8
Continuing operations	**252.3**	**187.2**	**772.6**	**523.4**
Discontinued operations	–	0.3	28.6	82.2
Total	**252.3**	**187.5**	**801.2**	**605.6**

Reconciliation of capital expenditure

€ million	2017	2016
Capital expenditure	**801.2**	**605.6**
Finance leases	136.0	315.5
Advance payments	247.8	91.8
Additions to discontinued operations	–28.6	–20.6
Other non-cash changes	3.5	–
Additions to other intangible assets and property, plant and equipment	**1,159.9**	**992.3**

Key figures by region

€ million	External turnover by customer location 2017	2016	Thereof external turnover from discontinued operations 2017	2016	Non-current assets 2017	2016	Thereof non-current assets from discontinued operations 2017	2016
Germany	5,513.8	5,125.4	9.0	87.2	720.9	615.2	–	0.3
Great Britain	5,983.6	6,356.6	316.0	641.8	2,340.3	2,000.3	–	178.0
Spain	147.2	232.3	0.9	112.6	479.7	470.0	–	–
Other Europe	6,861.0	6,276.1	62.2	342.8	522.4	456.3	–	55.7
North and South America	591.1	1,038.6	372.3	835.8	449.9	401.5	–	71.5
Rest of the world	267.3	477.2	68.6	301.4	490.2	488.3	–	48.2
Total	**19,364.0**	**19,506.2**	**829.0**	**2,321.6**	**5,003.4**	**4,431.6**	**–**	**353.7**

Notes to the consolidated income statement

TUI Group's financial position showed considerable growth in financial year 2017. The growth was primarily driven by the continued sound business performance of Northern Region, Hotels & Resorts and Cruises. However, Group profit declined year-on-year as losses from the sale of Travelopia Group had to be carried in the completed financial year, while high profits on disposal from the sale of Hotelbeds Group were recognised last year.

(1) Turnover

Group turnover is mainly generated from tourism services. A breakdown of turnover by segment and region is shown under segment reporting.

(2) Cost of sales and administrative expenses

Cost of sales relates to the expenses incurred in the provision of tourism services. In addition to the expenses for personnel, depreciation, amortisation, rental and leasing, it includes in particular all costs incurred by the Group in connection with the procurement and delivery of airline services, hotel accommodation, cruises and distribution costs.

Administrative expenses comprise all expenses incurred in connection with activities by the administrative functions and break down as follows:

Administrative expenses

€ million	**2017**	2016
Staff cost	710.9	697.6
Rental and leasing expenses	62.5	60.5
Depreciation, amortisation and impairment	92.6	64.3
Others	389.8	394.5
Total	**1,255.8**	**1,216.9**

The cost of sales and administrative expenses include the following expenses for personnel, depreciation / amortisation, rent and leasing:

Staff costs

€ million	**2017**	2016
Wages and salaries	1,896.4	1,846.7
Social security contributions	298.9	286.3
Pension costs	161.7	139.0
Total	**2,357.0**	**2,272.0**

Pension costs include service cost for defined benefit obligations and contributions to defined contribution pension schemes.

The year-on-year increase in staff costs in financial year 2017 mainly results from salary increases and a higher number of employees in operating areas. It also reflects restructuring expenses incurred in connection with the acquisition of the French tour operator Transat.

The average annual headcount (excluding trainees) evolved as follows:

Average annual headcount in the financial year (excl. trainees)

	2017	2016 restated
Hotels & Resorts	21,987	20,877
Cruises	312	290
Northern Region	14,166	14,474
Central Region	10,175	10,281
Western Region	6,119	5,370
Other Tourism	5,742	5,340
Tourism	**58,501**	**56,632**
All other segments	1,760	1,598
TUI Group	**60,261**	**58,230**
Discontinued operations	1,741	10,410
Total	**62,002**	**68,640**

The average annual headcount was in contrast to the prior year calculated this year on a quarterly headcount basis.

Depreciation / amortisation / impairment

€ million	2017	2016
Depreciation and amortisation of other intangible assets and property, plant and equipment	403.0	390.7
Impairment of other intangible assets and property, plant and equipment	73.1	17.3
Total	**476.1**	**408.0**

The increase in depreciation and amortisation is driven by the acquisition of a cruise ship in the prior year and investments in hotels and software. The additional depreciation resulting from the acquisition of aircraft was offset by adjustments to the useful lives of aircraft in the completed financial year.

Impairment charges related to hotels, especially due to damage by hurricanes in the Caribbean, impairment of software and other property, plant and equipment of Tenuta di Castelfalfi S.p.A.

In the prior year, impairment charges on property, plant and equipment mainly related to impairment of brands and software.

Rental and leasing expenses

€ million	2017	2016
Rental and leasing expenses	**838.5**	**817.0**

Where rental and leasing expenses for operating leases are directly related to revenue-generating activities, these expenses are shown within cost of sales. However, where rental and leasing expenses are incurred in respect of administrative buildings, they are shown under administrative expenses.

(3) Other income

In financial year 2017, other income results from the sale of two subsidiaries and an investment. Income was also generated from the sale of commercial real estate owned by Preussag Immobilien GmbH, Salzgitter, the sale of aircraft spare parts not required, and the sale of vehicles owned by incoming agencies.

Other income recognised in the prior year mainly resulted from the sale of a Riu Group hotel, from the sale of a joint venture and from the sale of the cruise ship Island Escape. Income was also generated from the sale of plots of commercial real estate owned by Preussag Immobilien GmbH, Salzgitter, and from the sale of vehicles owned by incoming agencies.

(4) Financial income

Financial income

€ million	**2017**	2016
Bank interest income	11.0	7.9
Other interest and similar income	8.5	11.6
Income from the measurement of hedges	2.2	1.0
Interest income	**21.7**	**20.5**
Income from investments	175.9	2.4
Income from the measurement of other financial instruments	30.6	4.1
Foreign exchange gains on financial instruments	1.1	31.5
Total	**229.3**	**58.5**

The increase in financial income by € 170.8 m to € 229.3 m is mainly due to the disposal of the remaining stake in Hapag-Lloyd AG. Details regarding that transaction are presented under Note 17.

(5) Financial expenses

Financial expenses

€ million	**2017**	2016
Bank interest payable on loans and overdrafts	10.2	14.5
Finance lease charges	46.2	36.2
Net interest expenses from defined benefit pension plans	15.7	27.6
Unwinding of discount on provisions	3.7	6.7
Other interest and similar expenses	57.2	102.5
Expenses relating to the measurement of hedges	7.9	12.5
Interest expenses	**140.9**	**200.0**
Expenses relating to the measurement of the investment in Hapag-Lloyd AG	–	100.3
Expenses relating to the measurement of other financial instruments	5.0	4.0
Foreign exchange losses on financial instruments	10.3	41.6
Total	**156.2**	**345.9**

The decline in financial expenses in financial year 2017 mainly results from the impairment of the investment in Hapag-Lloyd AG amounting to € 100.3 m in the previous year. This impairment resulted from the fair value measurement of the investment over the course of the year at the closing price of the Hapag-Lloyd share as of March 31, 2016 on the principal market Xetra of € 16.10 per share (Level 1 valuation). The subsequent increase in the fair value due to the increase in the price of the Hapag-Lloyd share was recognized directly in equity in accordance with IAS 39 until the shares were sold. For more detailed information, we refer to the comments in Note 17 'Financial assets available for sale'.

Other interest and similar expenses declined by € 45.3 m to € 57.2 m, primarily from the refinancing of the bonds issued in 2014 and lower utilisation of non-current credit facilities. For more detailed information, we refer to Note 31.

In addition, expenses on financial instruments due to changes in foreign exchange rates fell by € 31.3 m to € 10.3 m.

(6) Share of result of joint ventures and associates

The share of result of joint ventures and associates of € 252.3 m (previous year € 187.2 m) comprises the net profit for the year attributable to the associated companies and joint ventures.

For the development of the results of the material associates and joint ventures please refer to Note 16 'Investments in joint ventures and associates'.

(7) Income taxes

As in the prior year, the German TUI Group companies have to pay trade tax of 15.7 % and corporation tax of 15.0 % plus a 5.5 % solidarity surcharge on corporation tax.

The calculation of foreign income taxes is based on the laws and provisions applicable in the individual countries. The income tax rates applied to foreign companies vary from 0.0 % to 39.0 %.

Breakdown of income taxes

€ million	**2017**	2016
Current tax expense		
in Germany	17.3	39.5
abroad	115.9	125.1
Deferred tax expense / income	35.6	–11.2
Total	**168.8**	**153.4**

In financial year 2016, current income tax expenses in Germany reflected the reassessment of the trade tax risk in hotel purchasing, which resulted in tax expenses of € 35.1 m related to prior periods in the prior year reference period. The deferred tax expenses in the completed financial year largely arose abroad, outside of Germany. Current tax income related to prior periods amounts to € 4.6 m (previous year tax expense of € 9.9 m) in financial year 2017.

In financial year 2017, total income taxes of € 168.8 (previous year € 153.4 m) are derived as follows from an 'expected' income tax expense that would have arisen if the statutory income tax rate of parent company TUI AG (aggregate income tax rate) had been applied to earnings before tax.

Reconciliation of expected to actual income taxes

€ million	**2017**	2016
Earnings before income taxes	1,079.7	618.3
Expected income tax (current year 31.5 %, previous year 31.5 %)	**340.1**	**194.8**
Variation from the difference between actual and expected tax rates	– 61.9	– 27.0
Changes in tax rates and tax law	– 1.5	– 26.1
Income not taxable	– 207.5	– 114.6
Expenses not deductible	102.7	101.8
Effects from loss carryforwards	– 16.4	31.3
Temporary differences for which no deferred taxes were recognised	– 4.4	– 1.0
Deferred and current income tax relating to other periods (net)	20.2	– 11.1
Other differences	– 2.5	5.3
Income taxes	**168.8**	**153.4**

The increase in income not taxable primarily results from the tax-free sale of the shares in the participation in Hapag Llyod AG and the year-on-year increase in the equity result.

(8) Result from discontinued operation

The result from discontinued operations shows the after-tax result of the Specialist Group including the result from disposal until it was sold on 15 June 2017. It also includes net income from the discontinued operations sold in the prior year worth € 2.2 m. In the prior year, this item had included the after-tax results of Hotelbeds Group and LateRooms Group. For further information, please refer to the section Discontinued operations in the chapter on Acquisitions – Divestments – Discontinued operations.

(9) Group profit attributable to shareholders of TUI AG

In financial year 2017, the share in Group profit attributable to TUI AG shareholders declined from € 1,037.4 m in the prior year to € 644.8 m. The decline is primarily due to the proceeds from the sale of the Hotelbeds Group the previous year.

(10) Group profit attributable to non-controlling interest

In the Hotels & Resorts segment, the Group profit attributable to non-controlling interest primarily relates to RIUSA II Group with € 115.5 m (previous year € 110.7 m).

(11) Earnings per share

In accordance with IAS 33, basic earnings per share are calculated by dividing the Group profit for the year attributable to TUI AG shareholders by the weighted average number of registered shares outstanding during the financial year. The average number of shares is derived from the total number of shares at the beginning of the financial year (587,038,187 shares) and the employee shares issued on a pro rata temporis basis (15,328 new shares). The prorated effect of the own shares held by an employee benefit trust of 2,643,389 shares was deducted.

Earnings per share

		2017	2016
Group profit for the year attributable to shareholders of TUI AG	€ million	644.8	1,037.4
= Adjusted Group profit for the year attributable to shareholders of TUI AG	€ million	644.8	1,037.4
Weighted average number of shares		584,410,126	584,118,509
Basic earnings per share	€	**1.10**	**1.78**
– Basic earnings per share from continuing operations	€	1.36	0.61
– Basic earnings per share from discontinued operations	€	– 0.26	1.17

Diluted Earnings per share

		2017	2016
Adjusted Group profit for the year attributable to shareholders of TUI AG	€ million	644.8	1,037.4
Weighted average number of shares		584,410,126	584,118,509
Diluting effect from assumed exercise of share awards		52,514	1,522,934
Weighted average number of shares (diluted)		584,462,640	585,641,443
Diluted earnings per share	€	**1.10**	**1.77**
– Diluted earnings per share from continuing operations	€	1.36	0.60
– Diluted earnings per share from discontinued operations	€	– 0.26	1.17

As a rule, a dilution of earnings per share occurs when the average number of shares increases due to the addition of the issue of potential shares from conversion options. In the completed financial year, these effects resulted from employee shares. The share-based remuneration plans from prior years have fully expired.

(12) Taxes attributable to other comprehensive income

Tax effects relating to other comprehensive income

	2017			2016		
€ million	**Gross**	**Tax effect**	**Net**	Gross	Tax effect	Net
Foreign exchange differences	–17.9	–	–17.9	52.4	–	52.4
Available for sale financial instruments	–31.8	–	–31.8	31.8	–	31.8
Cash flow hedges	–263.6	46.9	–216.7	546.1	–80.9	465.2
Remeasurements of benefit obligations and related fund assets	280.7	–66.9	213.8	–593.3	157.9	–435.4
Changes in the measurement of companies measured at equity outside profit or loss	19.3	–	19.3	–32.0	–	–32.0
Other comprehensive income	**–13.3**	**–20.0**	**–33.3**	**5.0**	**77.0**	**82.0**

In addition, deferred income tax worth € –11.5 m (previous year € –11.4 m) and corporate income tax worth € –2.6 m (previous year € 2.0 m) were generated in the reporting period and recognised directly in equity.

Notes on the consolidated statement of financial position

(13) Goodwill

Goodwill

€ million	**2017**	2016
Historical cost		
Balance as at 1 Oct	**3,286.7**	**3,678.8**
Exchange differences	– 42.5	– 234.3
Additions	74.9	9.2
Reclassification as assets held for sale	–	–167.0
Balance as at 30 Sep	**3,319.1**	**3,286.7**
Impairment		
Balance as at 1 Oct	**– 433.2**	**– 458.4**
Exchange differences	3.6	25.0
Reclassification as assets held for sale	–	0.2
Balance as at 30 Sep	**– 429.6**	**– 433.2**
Carrying amounts as at 30 Sep	**2,889.5**	**2,853.5**

The increase in the carrying amount is mainly attributable to the acquisition of Transat France S.A. Detailed information on the acquisitions is presented in the section on Consolidation principles and methods. A reduction was caused by the translation of goodwill not carried in TUI Group's reporting currency into euros.

In accordance with IAS 21, goodwill allocated to the individual segments and sectors was recognised in the functional currency of the subsidiaries and subsequently translated when preparing the consolidated financial statements. As with 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 are taken directly to equity and disclosed as a separate item. In financial year 2017, a decrease in the carrying amount of goodwill of € 38.9 m (previous year decrease of € 209.3 m) resulted from foreign exchange differences.

The following table presents a breakdown of goodwill by cash generating unit (CGU) at carrying amounts:

Goodwill per cash generating unit

€ million	30 Sep 2017	30 Sep 2016
Northern Region	1,217.0	1,545.1
Central Region	510.2	507.7
Western Region	411.2	338.8
Destination Services	86.0	94.3
Riu	351.7	351.7
Marella Cruises	289.2	–
Other	24.2	15.9
Total	**2,889.5**	**2,853.5**

The hotel company Blue Diamond Hotels & Resorts Inc., St Michael, Barbados, which was carried in the Northern Region segment in the prior year, was integrated into and is now carried in the Hotels & Resorts segment in the completed financial year. Moreover, the British cruise business Marella Cruises was reclassified from the Northern Region segment to the Cruises segment in financial year 2017. Accordingly, the prorated goodwill was transferred to these businesses from Northern Region.

In the financial year, goodwill was tested for impairment at the level of CGUs as at 30 June 2017.

For all CGUs, the recoverable amount was determined on the basis of fair value less costs of disposal. The fair value was determined by means of discounting the expected cash inflows. This was based on the Q4 forecast for the financial year and on the medium-term plan for the entity under review, prepared as at 30 September 2017, following deduction of income tax payments. Budgeted turnover and EBITA margins are based on empirical values from prior financial years and expectations with regard to the future development of the market.

The discount rates are calculated as the weighted average cost of capital, taking account of country-specific risks of the CGU and based on external capital market information. The cost of equity included in the determination reflects the return expected by investors. The cost of borrowing is derived from the long-term financing terms of comparable companies in the peer group.

The table below provides an overview of the parameters underlying the determination of the fair values per CGU. It shows the timeframe for the cash flow forecast, the growth rates used to extrapolate the cash flow forecast, the discount rates and the relevant valuation hierarchy according to IFRS 13. The table lists the CGUs to which goodwill has been allocated. The below stated EBITA margin p.a. is adjusted for reasonable discounts for centrally incurred cost. The prior year's negative EBITA p.a. margin related to a new business segment being established.

Assumptions for calculation of fair value in financial year 2017

	Planning period in years	Growth rate revenues in % p.a.	EBITA-Margin in % p.a.	Growth rate after planning period in %	WACC in %	Level
Northern Region	3.25	5.6	3.9	1.0	5.25	3
Central Region	3.25	4.5	1.1	1.0	5.25	3
Western Region	3.25	6.4	3.0	1.0	5.25	3
Destination Services	3.25	5.5	8.8	1.0	5.25	3
RIU	3.25	4.9	33.1	1.0	6.25	3
Marella Cruises	3.25	11.7	17.5	1.0	5.25	3
Other	3.25	17.3 to 79.1	3.7 to 19.7	1.0	6.25 to 7.00	3

Assumptions for calculation of fair value in financial year 2016

	Planning period in years	Growth rate revenues in % p.a. (restated)	EBITA-Margin in % p.a. (restated)	Growth rate after planning period in %	WACC in %	Level
Northern Region	3.25	10.7	6.1	0.5	6.75	3
Central Region	3.25	7.9	1.1	0.5	6.75	3
Western Region	3.25	7.8	2.8	0.5	6.75	3
Destination Services	3.25	5.0	6.1	0.5	6.75	3
RIU	3.25	3.7	26.3	0.5	5.75	3
Other	3.25	24.4 to 93.1	−4.7 to +15.7	0.5	5.75	3

Goodwill was tested for impairment as at 30 June 2017. The test did not result in a requirement to recognise any further impairment. Neither an increase in WACC by 50 basis points nor a reduction by 50 basis points in the growth rate after the detailed planning period would have led to an impairment of goodwill. The same applies to a reduction of the discounted free cash flow in the growth rate of perpetuity of 10 %.

(14) Other intangible assets

The development of the line items of other intangible assets in financial year 2017 is shown in the following table.

Other intangible assets

€ million	Brands, licenses and other rights*	Computer software* internally generated	Computer software* acquired	Transport and leasing contracts	Customer base	Intangible assets in the course of construction and Payments on account*	Total
Historical cost							
Balance as at 1 Oct 2015	**1,270.9**	**223.5**	**–**	**110.5**	**255.6**	**0.5**	**1,861.0**
Exchange differences	–90.6	–20.0	–	–10.4	–6.5	–	–127.5
Additions due to changes in the group of consolidated companies	0.7	–	–	–	0.4	–	1.1
Additions	146.7	6.1	–	–	0.3	2.5	155.6
Disposals	–104.5	–4.6	–	–	–1.6	–	–110.7
Reclassification as assets held for sale	–408.5	–33.6	–	–7.1	–199.0	–	–648.2
Rebookings	–128.3	128.8	–	–	–	–0.5	–
Balance as at 30 Sep 2016	**686.4**	**300.2**	**–**	**93.0**	**49.2**	**2.5**	**1,131.3**
Exchange differences	–2.0	–6.2	–6.4	–1.5	–0.5	3.0	–13.6
Additions due to changes in the group of consolidated companies	8.1	0.2	0.2	–	11.3	0.9	20.7
Additions	1.3	11.0	16.6	–	–	100.6	129.5
Disposals	–2.2	–7.1	–5.1	–	–1.2	–9.2	–24.8
Rebookings	–0.1	48.1	20.8	–	–	–70.0	–1.2
Reclassifications	–309.3	–	247.0	–	–	62.3	–
Balance as at 30 Sep 2017	**382.2**	**346.2**	**273.1**	**91.5**	**58.8**	**90.1**	**1,241.9**
Amortisation and impairment							
Balance as at 1 Oct 2015	**–658.4**	**–106.0**	**–**	**–44.5**	**–140.6**	**–**	**–949.5**
Exchange differences	43.6	6.6	–	5.4	4.0	–	59.6
Amortisation for the current year	–74.1	–31.4	–	–4.7	–11.1	–	–121.3
Impairment for the current year	–22.9	–8.0	–	–	–	–	–30.9
Disposals	100.0	4.3	–	–	1.6	–	105.9
Reclassification as assets held for sale	210.1	19.5	–	5.2	115.9	–	350.7
Rebookings	11.0	–6.3	–	–4.7	–	–	–
Balance as at 30 Sep 2016	**–390.7**	**–121.3**	**–**	**–43.3**	**–30.2**	**–**	**–585.5**
Exchange differences	–0.5	1.2	1.8	1.0	0.4	–0.2	3.7
Amortisation for the current year	–16.0	–37.8	–35.0	–4.5	–4.8	–	–98.1
Impairment for the current year	–	–27.3	–0.3	–	–	–9.0	–36.6
Disposals	1.2	7.0	4.0	–	1.3	9.2	22.7
Reclassifications	159.1	–	–159.1	–	–	–	–
Balance as at 30 Sep 2017	**–246.9**	**–178.2**	**–188.6**	**–46.8**	**–33.3**	**–**	**–693.8**
Carrying amounts as at 30 Sep 2016	**295.7**	**178.9**	**–**	**49.7**	**19.0**	**2.5**	**545.8**
Carrying amounts as at 30 Sep 2017	**135.3**	**168.0**	**84.5**	**44.7**	**25.5**	**90.1**	**548.1**

* The acquired computer software, which was previously reported within brands, licences and other rights, will from now on be presented together with the internally generated computer software. In addition the intangible assets under construction are no longer reported as part of brands, licences and other rights but will be presented together with the payments on accounts. The opening balances have been reallocate accordingly.

Internally-generated computer software consists of computer programs for tourism applications exclusively used internally by the Group.

Transport contracts relate to landing rights at airports in the UK purchased and measured during the acquisition of First Choice Holidays Plc in 2007.

The lease contracts relate to intangible assets from the measurement of aircraft leases in connection with the acquisition of First Choice Holidays Plc in 2007. The assets are amortised in line with the length of the lease.

Payments on account made totalled € 1.9 m as at 30 September 2017.

The year-on-year changes also include the changes relating to Specialist Group, which was only classified as a discontinued operation according to IFRS 5 as at the end of financial year 2016.

Additions to consolidation mainly relate to the acquisition of Transat France S.A. For details, refer to the section on Acquisitions.

In financial year 2017, a financial software was partly impaired and an Internet platform in the Northern Region segment was fully impaired.

The prior year's impairment charges related to brands of the Specialist Group and of the Western Region segment as well as software in the Specialist Group and a module of an Internet platform in the Other tourism segment.

(15) Property, plant and equipment

The table below presents the development of the individual items of property, plant and equipment in financial year 2017.

Property, plant and equipment

€ million	Hotels incl. land	Other buildings and land	Aircraft
Historical cost			
Balance as at 1 Oct 2015	**1,401.5**	**281.5**	**1,734.4**
Exchange differences	–32.5	–17.6	–24.1
Additions due to changes in the group of consolidated companies	–	–	–
Additions	48.1	55.8	145.4
Disposals	–5.6	–25.7	–43.4
Reclassification as assets held for sale	–	–67.3	–5.7
Reclassifications	25.4	4.7	28.5
Balance as at 30 Sep 2016	**1,436.9**	**231.4**	**1,835.1**
Exchange differences	–19.0	–0.7	–68.0
Additions due to changes in the group of consolidated companies	15.8	4.9	–
Additions	51.8	15.2	182.1
Disposals	–4.9	–3.5	–29.5
Reclassification as assets held for sale	–21.1	–0.7	–57.6
Reclassifications	92.8	–5.9	15.7
Balance as at 30 Sep 2017	**1,552.3**	**240.7**	**1,877.8**
Depreciation and impairment			
Balance as at 1 Oct 2015	**–430.3**	**–111.3**	**–568.4**
Exchange differences	10.4	–0.9	21.0
Depreciation for the current year	–37.7	–5.7	–123.4
Impairment for the current year	–	–1.3	–
Disposals	4.4	17.4	37.7
Reclassification as assets held for sale	–	28.4	0.6
Reclassifications	–4.8	–2.6	–0.6
Balance as at 30 Sep 2016	**–458.0**	**–76.0**	**–633.1**
Exchange differences	3.7	0.7	–9.7
Depreciation for the current year	–45.6	–4.2	–107.9
Impairment for the current year	–19.9	–8.0	–
Disposals	4.7	2.9	27.0
Reclassification as assets held for sale	10.6	–	53.1
Reclassifications	–7.0	9.0	–
Balance as at 30 Sep 2017	**–511.5**	**–75.6**	**–670.6**
Carrying amounts as at 30 Sep 2016	**978.9**	**155.4**	**1,202.0**
Carrying amounts as at 30 Sep 2017	**1,040.8**	**165.1**	**1,207.2**

* Now also comprises the assets formerly shown in column Machinery and fixtures. By the end of the prior financial year the accumulated historical costs amounted to € 304.6 m, the depreciation and impairment to € 220.1 m

Cruise ships	Other plant, operating and office equipment*	Assets under construction	Payments on account	**Total**
1,110.1	**1,283.8**	**55.0**	**175.8**	**6,042.1**
−61.5	−29.3	−2.8	−9.2	−177.0
–	1.6	–	–	1.6
228.0	103.6	157.7	98.1	836.7
−156.2	−113.3	−1.7	−43.1	−389.0
−246.0	−90.8	−2.0	–	−411.8
20.1	−16.8	−48.1	−11.5	2.3
894.5	**1,138.8**	**158.1**	**210.1**	**5,904.9**
−16.6	−24.1	25.7	−21.0	−123.7
–	3.4	–	–	24.1
8.4	101.3	376.8	294.8	1,030.4
−4.7	−56.5	–	−45.5	−144.6
0.2	−0.5	–	–	−79.7
247.6	32.9	−366.7	−13.2	3.2
1,129.4	**1,195.3**	**193.9**	**425.2**	**6,614.6**
−403.4	**−891.9**	**–**	**–**	**−2,405.3**
14.1	19.8	–	–	64.4
−58.7	−98.1	–	–	−323.6
–	−1.4	–	–	−2.7
144.8	107.2	–	–	311.5
82.7	56.0	–	–	167.7
0.3	5.1	0.2	–	−2.4
−220.2	**−803.3**	**0.2**	**–**	**−2,190.4**
2.7	16.3	–	–	13.7
−56.4	−90.8	–	–	−304.9
–	−8.5	–	–	−36.4
4.6	54.1	–	–	93.3
–	0.4	–	–	64.1
–	−2.3	–	–	−0.3
−269.3	**−834.1**	**0.2**	**–**	**−2,360.9**
674.3	**335.5**	**158.3**	**210.1**	**3,714.5**
860.1	**361.2**	**194.1**	**425.2**	**4,253.7**

The additions from changes in the group of consolidated companies mainly relate to the acquisition of Transat France S.A. For details, please refer to the section on Acquisitions.

In the financial year, advance payments worth € 33.2 m were made for the acquisition of cruise ships, with € 252.4 m worth of advance payments (previous year € 91.8 m) on the acquisition of aircraft.

In the reporting period, the cruise ship Marella Discovery 2 was added at a carrying amount of € 228.6 m, initially as assets under construction. Following its commissioning, the cruise ship was reclassified accordingly. In the prior year, the amount carried for cruise ships included an amount of € 182.9 m for the introduction of Marella Discovery. Both ships are used in the segment cruises. Further additions to assets under construction include an amount of € 92.1 m (previous year € 100.9 m) for investments in hotels in the Hotels & Resorts segment.

In the reporting period, two aircraft have been capitalised at an amount of in total € 145.6 m.

In the course of the year, two hotel complexes were reclassified to assets held for sale. One hotel was sold before the end of the financial year. Moreover, an aircraft was classified as held for sale and reclassified accordingly.

In financial year 2017, borrowing costs of € 4.0 m (previous year € 2.1 m) were capitalised. The capitalisation rate of capitalised borrowing costs is 3.75 % p.a. for financial year 2017 and 3.25 % p.a. for the prior year.

The impairment charges include an amount of € 21.3 m for hotel facilities in the Caribbean hit by hurricanes. These impairment charges went hand in hand with insurance claims recognized within trade receivables and other assets. Further impairment charges of € 15.0 m were recognised for impairment of buildings and technical equipment at Tenuta di Castelfalfi S.p.A. in the Hotels & Resorts segment.

The carrying amount of property, plant and equipment subject to ownership restrictions or pledged as collateral totalled € 553.8 m (previous year € 613.1 m).

FINANCE LEASES

Property, plant and equipment also comprise leased assets in which Group subsidiaries have assumed the risks and rewards of ownership of the assets (finance leases).

Composition of finance leased assets

	Net carrying amounts	
€ million	**30 Sep 2017**	30 Sep 2016
Other buildings and land	16.4	14.8
Aircraft	906.6	955.0
Cruise ships	209.0	232.5
Other plant, operating and office equipment	26.1	27.7
Total	**1,158.1**	**1,230.0**

The leasing contracts for aircraft include repurchase options for the lessee at fixed residual values.

Total payment obligations resulting from future lease payments total € 1,420.6 m (previous year € 1,450.1 m). Group companies have not granted any guarantees for the residual values of the leased assets, as in the prior year.

Reconciliation of future lease payments to liabilities from finance leases

	30 Sep 2017				30 Sep 2016			
	Remaining term				Remaining term			
€ million	up to 1 year	1–5 years	more than 5 years	**Total**	up to 1 year	1–5 years	more than 5 years	Total
Total future lease payments	128.2	513.1	779.4	1,420.7	125.7	462.4	862.0	1,450.1
Interest portion	32.0	107.8	54.4	194.2	33.5	113.4	71.5	218.4
Liabilities from finance leases	96.2	405.3	725.0	1,226.5	92.2	349.0	790.5	1,231.7

(16) Investments in joint ventures and associates

The table below presents all joint arrangements and associates of relevance to TUI Group. All joint arrangements and associates are listed as TUI Group Shareholdings in Note 49. All joint arrangements are joint ventures. There are no joint operations within the meaning of IFRS 11.

Significant associates and joint ventures

		Capital share in %		Voting rights share in %	
Name and headquarter of company	Nature of business	**30 Sep 2017**	30 Sep 2016	**30 Sep 2017**	30 Sep 2016
Associates					
Sunwing Travel Group Inc., Toronto, Canada	Tour operator & Hotel operator	49.0	49.0	25.0	25.0
Joint ventures					
Riu Hotels S.A., Palma de Mallorca, Spain	Hotel operator	49.0	49.0	49.0	49.0
TUI Cruises GmbH, Hamburg, Germany	Cruise ship operator	50.0	50.0	50.0	50.0
Togebi Holdings Limited, Nicosia, Cyprus	Tour operator	25.0	25.0	25.0	25.0

All companies presented above are measured at equity.

The financial year of Sunwing Travel Group Inc., Toronto / Canada (Sunwing) corresponds to TUI Group's financial year. The financial years of the joint ventures listed above deviate from TUI Group's financial year, ending on 31 December of any one year. In order to update the at equity measurement as at TUI Group's balance sheet date, interim financial statements for the period ending 30 September are prepared for these companies.

SIGNIFICANT ASSOCIATES

In 2009, Sunwing entered into a partnership with TUI Group. Sunwing is a vertically integrated travel company comprising tour operation, an airline and retail shops. Since the transfer of the hotel operation and development company Blue Diamond Hotels & Resorts Inc., St Michael / Barbados, to Sunwing in September 2016, Sunwing has also included the hotel operation business with a chain of luxury beach resorts and hotels in the Caribbean and Mexico. Sunwing's hotel operation business is carried in the Hotels & Resorts segment, while the tour operation business is carried in the Northern Region segment. The company has different classes of shares. TUI Group holds 25 % of the voting shares.

SIGNIFICANT JOINT VENTURES

Riu Hotels S.A. is a hotel company owning and operating hotels in the 4- to 5-star segments. The hotels of the company established in 1976 are mainly located in Spain and Central America.

TUI Cruises is a joint venture with the US shipping line Royal Caribbean Cruises Ltd established in 2008. The Hamburg-based company offers German-speaking cruises for the premium market. Since the launch of Mein Schiff 6 in June 2017, TUI Cruises has operated six cruise ships.

Togebi Holdings Limited (TUI Russia) is a joint venture between TUI and Oscrivia Limited, a subsidiary of Unifirm Limited. Unifirm Limited is a subsidiary of OOO Sever Group, owned by a large shareholder and Supervisory Board member of TUI AG. The business purpose of this joint venture, established in 2009, is to develop the tour operation business, in particular in Russia and Ukraine. The company owns tour operation subsidiaries and retail chains in these countries. In the prior year, contractual agreements on the reorganisation of the equity of TUI Russia were concluded with Oscrivia Limited. The parties agreed a capital increase in which TUI Group participated by paying a net amount of USD 3 m, while Oscrivia Limited paid a net amount of USD 17 m. TUI Group's share in TUI Russia declined from 49 % to 25 % and Oscrivia Limited increased its share to 75 %. Existing loans and guarantees of the shareholders were adjusted to reflect the new stakes. Furthermore, the joint venture agreement was amended to reflect the new voting rights proportions. The relevant activities of TUI Russia continue to be jointly determined by TUI Group and Oscrivia Limited, so that TUI Russia remains classified as a joint venture.

FINANCIAL INFORMATION ON ASSOCIATES AND JOINT VENTURES

The tables below present summarised financial information for the significant associates and joint ventures of the Group. The amounts shown reflect the full amounts presented in the consolidated financial statements of the relevant associates and joint ventures (100 %); they do not represent TUI Group's share of those amounts.

Combined financial information of material associates

	Sunwing Travel Group Inc., Toronto, Canada	
€ million	**30 Sep 2017 / 2017**	30 Sep 2016 / 2016
Non-current assets	1,061.9	736.5
Current assets	471.9	491.5
Non-current provisions and liabilities	570.4	386.3
Current provisions and liabilities	511.7	421.9
Revenues	2,022.6	1,432.6
Profit / loss*	67.7	11.6
Other comprehensive income	– 35.8	4.5
Total comprehensive income	**31.9**	**16.1**

* Solely from continuing operations

Combined financial information of material joint ventures

€ million	Riu Hotels S.A., Palma de Mallorca, Spain 30 Sep 2017/2017	Riu Hotels S.A., Palma de Mallorca, Spain 30 Sep 2016/2016	TUI Cruises GmbH, Hamburg, Germany 30 Sep 2017/2017	TUI Cruises GmbH, Hamburg, Germany 30 Sep 2016/2016	Togebi Holdings Limited, Nicosia, Cypres 30 Sep 2017/2017	Togebi Holdings Limited, Nicosia, Cypres 30 Sep 2016/2016
Non-current assets	757.1	739.8	2,542.5	2,049.0	3.5	3.9
Current assets	129.8	79.5	193.7	193.1	57.1	27.1
thereof cash and cash equivalents	67.4	26.8	109.4	105.5	10.7	3.4
Non-current provisions and liabilities	18.1	13.3	1,393.0	1,143.4	102.0	117.3
thereof financial liabilities	5.6	9.0	1,392.5	1,142.7	102.0	114.6
Current provisions and liabilities	106.4	148.3	657.6	519.2	75.1	27.2
thereof financial liabilities	42.3	82.2	200.0	92.1	49.3	18.6
Turnover	316.7	305.7	1,052.5	807.3	259.8	129.5
Depreciation/amortisation of intangible assets and property, plant and equipment	22.7	21.1	71.8	58.1	1.5	1.3
Interest income	0.3	0.2	–	–	–	–
Interest expenses	0.8	1.7	32.3	16.2	5.3	4.7
Income taxes	32.3	36.7	–0.1	0.3	–	0.1
Profit/loss*	105.5	92.5	271.8	200.2	–10.5	9.2
Other comprehensive income	25.1	–36.4	14.0	–37.8	–	–
Total comprehensive income	**130.6**	**56.1**	**285.8**	**162.4**	**–10.5**	**9.2**

*Solely from continuing operations

In financial year 2017, TUI Group received dividends of € 90.0 m from TUI Cruises and € 12.7 m from Riu Hotels. In total, dividends of € 117.5 m (previous year € 79.4 m, including € 12.2 m from Riu Hotels and € 60.0 m from TUI Cruises) were paid by joint ventures to TUI Group. In financial year 2017, TUI Group did not receive any dividends from Sunwing Travel Group, as in the prior year. In total, TUI Group received dividends of € 2.0 m from its associates (previous year € 1.1 m).

In addition to TUI Group's significant associates and joint ventures, TUI AG has interests in other associates and joint ventures measured at equity, which individually are not considered to be of material significance. The tables below provide information on TUI Group's share of the earnings figures shown for the major associates and joint ventures as well as the aggregated amount of the share of profit/loss, other comprehensive income and total comprehensive income for the immaterial associates and joint ventures.

Share of financial information of material and other associates

€ million	Sunwing Travel Group Inc., Toronto, Canada 2017	Sunwing Travel Group Inc., Toronto, Canada 2016	Other immaterial associates 2017	Other immaterial associates 2016	Associates Total 2017	Associates Total 2016
TUI's share of						
Profit/loss	33.2	5.7	2.5	19.5	35.7	25.2
Other comprehensive income	–17.5	4.5	–2.8	–	–20.3	4.5
Total comprehensive income	**15.7**	**10.2**	**–0.3**	**19.5**	**15.4**	**29.7**

Share of financial information of material and other joint ventures

€ million	Riu Hotels S.A., Palma de Mallorca, Spain 2017	2016	TUI Cruises GmbH, Hamburg, Germany 2017	2016	Togebi Holdings Limited, Nicosia, Cypres 2017	2016	Other immaterial joint ventures 2017	2016	Joint ventures Total 2017	2016
TUI's share of										
Profit/loss	51.7	45.3	135.9	100.1	–	–	29.0	16.6	216.6	162.0
Other comprehensive income	12.4	–18.1	7.0	–18.7	–	–	–45.2	–	–25.8	–36.8
Total comprehensive income	**64.1**	**27.2**	**142.9**	**81.4**	**–**	**–**	**–16.2**	**16.6**	**190.8**	**125.2**

Net assets of the material associates

€ million	Sunwing Travel Group Inc., Toronto, Canada
Net assets as at 1 Oct 2015	**201.4**
Profit/loss	11.6
Other comprehensive income	9.2
Dividends	–
Capital increase	–
Foreign exchange effects	0.9
Consolidation effects	196.7
Net assets as at 30 Sep 2016	**419.8**
Profit/loss	67.7
Other comprehensive income	–9.3
Dividends	–
Capital increase	–
Foreign exchange effects	–26.6
Consolidation effects	–
Net assets as at 30 Sep 2017	**451.6**

Reconciliation to the carrying amount of the associates in the Group balance sheet

€ million	Sunwing Travel Group Inc., Toronto, Canada	Other immaterial associates	Associates total
Share of TUI in % as at 30 Sep 2016	49.0	–	–
TUI's share of the net assets as at 30 Sep 2016	205.7	50.9	256.6
Goodwill as at 30 Sep 2016	51.3	4.0	55.3
Carrying value as at 30 Sep 2016	**257.0**	**54.9**	**311.9**
Share of TUI in % as at 30 Sep 2017	49.0	–	–
TUI's share of the net assets as at 30 Sep 2017	221.3	49.3	270.6
Goodwill as at 30 Sep 2017	51.4	4.0	55.4
Carrying value as at 30 Sep 2017	**272.7**	**53.3**	**326.0**

Net assets of the material joint ventures

€ million	Riu Hotels S.A., Palma de Mallorca, Spain	TUI Cruises GmbH, Hamburg, Germany	Togebi Holdings Limited, Nicosia, Cypres
Net assets as at 1 Oct 2015	**637.7**	**536.8**	**–168.5**
Profit/loss	92.5	200.2	9.2
Other comprehensive income	–36.4	–37.8	–0.2
Dividends	–25.0	–120.0	–
Capital increase	–	–	48.3
Foreign exchange effects	–12.5	–	–2.3
Net assets as at 30 Sep 2016	**656.3**	**579.2**	**–113.5**
Profit/loss	105.5	271.9	–10.5
Other comprehensive income	38.2	14.3	–
Dividends	–26.0	–180.0	–
Capital increase	–	–	–
Foreign exchange effects	–13.0	–	7.5
Net assets as at 30 Sep 2017	**761.0**	**685.4**	**–116.5**

Reconciliation to the carrying amount of the joint ventures in the Group balance sheet

€ million	Riu Hotels S.A., Palma de Mallorca, Spain	TUI Cruises GmbH, Hamburg, Germany	Togebi Holdings Limited, Nicosia, Cypres	Other immaterial joint ventures	Joint ventures total
Share of TUI in % as at 30 Sep 2016	49.0	50.0	25.0	–	–
TUI's share of the net assets as at 30 Sep 2016	321.6	289.6	–28.4	228.4	811.2
Unrecognised share of losses	–	–	6.5	–	6.5
Goodwill as at 30 Sep 2016	1.7	–	21.9	27.6	51.2
Carrying value as at 30 Sep 2016	**323.3**	**289.6**	**–**	**256.0**	**868.9**
Share of TUI in % as at 30 Sep 2017	49.0	50.0	25.0	–	–
TUI's share of the net assets as at 30 Sep 2017	372.9	342.7	–29.2	246.5	932.9
Unrecognised share of losses	–	–	8.5	–	8.5
Goodwill as at 30 Sep 2017	1.7	–	20.7	16.4	38.8
Carrying value as at 30 Sep 2017	**374.6**	**342.7**	**–**	**262.9**	**980.2**

UNRECOGNISED LOSSES BY JOINT VENTURES

Unrecognised accumulated losses increased by € 2.0 m to € 8.5 m. They relate to the joint venture TUI Russia, operating in source markets Russia and Ukraine. Due to the recognition of prorated losses in previous years, the carrying amount of the joint venture was already fully written off in financial year 2014. Recognition of further losses would have reduced the carrying amount of the joint ventures to below zero.

RISKS ASSOCIATED WITH THE STAKES IN ASSOCIATES AND JOINT VENTURES

Contingent liabilities of € 33.9 m (previous year € 0.0 m) existed in respect of associates as at 30 September 2017, with contingent liabilities of € 73.2 m (previous year € 106.2 m) in respect of joint ventures. Moreover, financial liabilities from investments of € 613.2 m (previous year € 613.2 m) and from lease, charter and rental agreements worth € 56.2 m (previous year € 8.4 m) are in place in respect of joint ventures.

(17) Financial assets available for sale

Financial assets available for sale

€ million	30 Sep 2017 Remaining term more than 1 year	30 Sep 2017 Total	30 Sep 2016 Remaining term more than 1 year	30 Sep 2016 Total
Shares in non-consolidated Group companies	2.0	2.0	2.1	2.1
Investments	55.3	55.3	36.3	302.1
Other securities	12.2	12.2	12.0	12.0
Total	**69.5**	**69.5**	**50.4**	**316.2**

In the completed financial year, TUI AG sold its remaining stake in Hapag-Lloyd AG (previous year € 265.8 m) at a purchase price less costs of disposal of € 406.4 m. On derecognition the cumulative positive changes in the stake's fair value since 31 March 2016 previously recognised in other comprehensive income of € 179.6 m (thereof previous year € 31.8 m) were reclassified to profit or loss in accordance with IAS 39. The resulting profit on disposal of € 172.4 m is carried under financial income.

There was no impairment of available for sale financial assets to be included in financial expenses in the consolidated income statement for the reporting period (previous year € 101.0 m). In the prior year, the fair value measurement of the stake at the closing rate of the Hapag-Lloyd AG share as at 31 March 2016 in the principal market Xetra of € 16.10 per share resulted in impairment charges totalling € 100.3 m (level-1 measurment).

(18) Trade receivables and other assets

Trade receivables and other assets

€ million	30 Sep 2017 Remaining term more than 1 year	30 Sep 2017 Total	30 Sep 2016 Remaining term more than 1 year	30 Sep 2016 Total
Trade receivables	0.0	431.4	0.0	429.5
Advances and loans	97.9	142.7	61.7	107.8
Other receivables and assets	113.9	432.2	94.8	373.9
Total	**211.8**	**1,006.3**	**156.5**	**911.2**

Ageing structure of the financial instruments included in trade receivables and other assets

€ million	Carrying amount of financial instruments	of which not impaired but overdue	of which not impaired and overdue in the following periods: less than 30 days	between 30 and 90 days	between 91 and 180 days	more than 180 days
Balance as at 30 Sep 2017						
Trade receivables	431.4	159.3	112.3	30.5	12.0	4.5
Advances and loans	142.3	19.1	19.0	–	–	0.1
Other receivables and assets	171.4	25.6	6.1	9.9	1.7	7.9
Total	**745.1**	**204.0**	**137.4**	**40.4**	**13.7**	**12.5**
Balance as at 30 Sep 2016						
Trade receivables	429.5	176.0	119.3	24.3	15.7	16.7
Advances and loans	75.5	18.5	17.4	0.1	–	1.0
Other receivables and assets	184.7	21.2	11.4	2.7	1.1	6.0
Total	**689.7**	**215.7**	**148.1**	**27.1**	**16.8**	**23.7**

For financial assets which are neither past due nor impaired, TUI Group assumes that the counter party has a good credit standing.

As at 30 September 2017, trade accounts receivable and other receivables worth € 76.0 (previous year € 62.7 m) were impaired. The table below provides a maturity analysis of impairment.

Ageing structure of impairment of financial instruments included in trade receivables and other assets

	30 Sep 2017			30 Sep 2016		
€ million	**Gross value**	**Impairment**	**Net value**	Gross value	Impairment	Net value
Trade receivables and other assets						
Not overdue	559.4	18.3	541.1	478.8	4.8	474.0
Overdue up to 30 days	151.1	13.7	137.4	149.9	1.8	148.1
Overdue 30 – 90 days	48.5	8.1	40.4	30.1	3.0	27.1
Overdue 90 – 180 days	15.7	2.0	13.7	18.8	2.0	16.8
Overdue more than 180 days	46.4	33.9	12.5	74.8	51.1	23.7
Total	**821.1**	**76.0**	**745.1**	**752.4**	**62.7**	**689.7**

Impairment of trade receivables and other assets developed as follows:

Impairment on assets of the trade receivables and other assets category according to IFRS 7

€ million	2017	2016
Balance at the beginning of period	**62.7**	**99.7**
Additions	26.4	10.5
Disposals	12.4	23.1
Other changes	– 0.7	– 24.4
Balance at the end of period	**76.0**	**62.7**

As in the previous year, in financial year 2017, no material cash inflow was recorded from impaired interest-bearing trade receivables and other assets.

(19) Touristic payments on account

Touristic payments on account mainly relate to customary advance payments on future tourism services, in particular advance payments made by tour operators for future hotel services.

(20) Deferred and income tax assets

Individual items of deferred tax assets and liabilities recognised in the financial position

	30 Sep 2017		30 Sep 2016	
€ million	Asset	Liability	Asset	Liability
Finance lease transactions	2.2	–	2.2	–
Recognition and measurement differences for property, plant and equipment and other non-current assets	50.6	210.1	67.6	231.9
Recognition differences for receivables and other assets	60.5	114.8	23.1	62.4
Measurement of financial instruments	22.3	22.5	21.4	64.5
Measurement of pension provisions	183.3	5.6	253.5	0.1
Recognition and measurement differences for other provisions	71.2	17.0	63.1	32.0
Other transactions	58.3	61.8	85.1	54.8
Capitalised tax savings from recoverable losses carried forward	198.1	–	211.5	–
Netting of deferred tax assets and liabilities	– 322.8	– 322.8	– 382.8	– 382.8
Balance sheet amount	**323.7**	**109.0**	**344.7**	**62.9**

Deferred tax assets include an amount of € 311.6 m (previous year € 328.7 m) expected to be realised after more than twelve months. Deferred tax liabilities include an amount of € 57.3 m (previous year € 49.2 m) expected to be realised after more than twelve months.

No deferred tax assets are recognised for deductible temporary differences of € 315.7 m (previous year € 157.3 m).

No deferred tax liabilities are carried for temporary differences of €58.6 m (previous year €58.6 m) between the net assets of subsidiaries and the respective taxable carrying amounts of subsidiaries since these temporary differences are not expected to be reversed in the near future.

Recognised losses carried forward and time limits for non-recognised losses carried forward

€ million	**30 Sep 2017**	30 Sep 2016
Recognised losses carried forward	**998.2**	**1,041.0**
Non-recognised losses carried forward	**4,654.5**	**4,654.5**
of which losses carried forward forfeitable within one year	3.8	4.4
of which losses carried forward forfeitable within 2 to 5 years	89.8	83.0
of which losses carried forward forfeitable within more than 5 years (excluding non-forfeitable loss carryforwards)	–	1.8
Non-forfeitable losses carried forward	4,560.9	4,565.3
Total unused losses carried forward	**5,652.7**	**5,695.5**

Losses carried forward for German companies comprise the cumulative amount of trade tax and corporation tax as well as interest carried forward in relation to the German interest barrier. Potential tax savings totalling €900.1 m (previous year €981.7 m) were not capitalised since the underlying losses carried forward are unlikely to be utilised within the planning period.

In financial year 2017, the use of losses carried forward previously assessed as non-recoverable and for which no deferred tax asset had been recognised as at 30 September 2016 led to tax reductions of €0.4 m (previous year €10.7 m). As in the prior year, no tax reductions were realised by means of losses carried back.

Development of deferred tax assets from losses carried forward

€ million	**2017**	2016
Capitalised tax savings at the beginning of the year	**211.5**	**239.4**
Use of losses carried forward	–38.7	–15.3
Capitalisation of tax savings from tax losses carried forward	27.9	6.7
Write-down of capitalised tax savings from tax losses carried forward	–2.9	–13.7
Reclassification to discontinued operation	–	–4.8
Exchange adjustments and other items	0.3	–0.8
Capitalised tax savings at financial year-end	**198.1**	**211.5**

Capitalised deferred tax assets from temporary differences and losses carried forward that are assessed as recoverable of €4.0 m (previous year €4.9 m) are covered by expected future taxable income even for companies that generated losses in the reporting period or the prior year.

(21) Inventories

Inventories

€ million	30 Sep 2017	30 Sep 2016
Airline spares and operating equipment	32.1	24.9
Real estate for sale	33.4	39.0
Consumables used in hotels	17.2	16.1
Other inventories	27.5	25.2
Total	**110.2**	**105.2**

In financial year 2017, inventories of € 541.1 m (previous year € 552.8 m) were recognised as an expense.

(22) Cash and cash equivalents

Cash and cash equivalents

€ million	30 Sep 2017	30 Sep 2016
Bank deposits	2,486.1	2,037.6
Cash in hand and cheques	30.0	35.3
Total	**2,516.1**	**2,072.9**

At 30 September 2017, cash and cash equivalents of € 261.0 m were subject to restrictions (previous year € 128.6 m).

On 30 September 2016, TUI AG entered into an agreement to close the gap between the obligations and the fund assets of defined benefit pension plans in the UK in the long run. At the balance sheet date an amount of € 142.9 m is deposited as security on a bank account. Until their disposal in financial year 2017, the shares in Hapag-Lloyd AG held by TUI AG were assigned as collateral. TUI Group can only use that cash and cash equivalents if it presents alternative collateral.

Further, an amount of € 116.5 m (previous year € 116.4 m) was deposited with a Belgian subsidiary without acknowledgement of debt by the Belgian tax authorities in financial year 2013 respect of long-standing litigation over VAT refunds for the years 2001 to 2011. The purpose was to suspend the accrual of interest for both parties. In order to collateralise a potential repayment, the Belgian government was granted a bank guarantee. Due to the bank guarantee, TUI's ability to dispose of the cash and cash equivalents has been restricted. The other restrictions relate to cash and cash equivalents to be deposited due to legal or regulatory requirements.

(23) Assets held for sale

Assets held for sale

€ million	**30 Sep 2017**	30 Sep 2016
Property and hotel facilities	5.0	–
Aircraft and engines	4.6	–
Discontinued Operation Specialist Group	–	928.9
Other assets	–	0.9
Total	**9.6**	**929.8**

In the prior year, the Specialist Group segment was reclassified to assets held for sale as a discontinued operation. The sale took place on 15 June 2017. For further information, reference is made to the section 'Discontinued operations'.

(24) Subscribed capital

The fully paid subscribed capital of TUI AG consists 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 is around € 2.56. As the capital stock consists of registered shares, the owners are listed by name in the share register.

The subscribed capital of TUI AG has been registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover. In the financial year, it rose by a total of 348,713 employee shares. It thus comprised 587,386,900 shares (previous year 587,038,187 shares) as at the end of the financial year. It rose by € 0.9 m to € 1,501.6 m.

As at 30 September 2017, no TUI AG shares were held by the Employee Benefit Trust of TUI Travel Limited (previous year 2,664,194), as these were entirely sold during the financial year.

The Annual General Meeting on 14 February 2017 authorised the Executive Board of TUI AG to acquire own shares of up to 5 % of the capital stock. The authorisation will expire on 13 August 2018. The authorisation to acquire own shares has not been used to date.

CONDITIONAL CAPITAL

The Annual General Meeting on 9 February 2016 had created conditional capital of € 150.0 m and authorised the Company to issue bonds. The conditional capital authorisation to acquire bonds with conversion or option rights and profit participation (with or without a fixed maturity) is limited to a nominal amount of € 2.0 bn and expires on 8 February 2021.

Overall, TUI AG had total conditional capital of € 150.0 m as at 30 September 2017, unchanged to the prior financial year end.

AUTHORISED CAPITAL

The Annual General Meeting on 13 February 2013 resolved to create additional authorised capital of € 10.0 m for the issue of employee shares. The Executive Board of TUI AG has been authorised to use this authorised capital in one or several transactions to issue employee shares against cash contribution by 12 February 2018. 348,713 new employee shares were issued in the completed financial year so that authorised capital totals around € 7.4 m at balance sheet date.

The General Meeting on 28 October 2014 resolved to create authorised capital to issue new shares against non-cash contribution of € 18.0 m in order to be able to service TUI Travel PLC share awards granted by TUI Travel PLC to its employees with new shares in TUI AG. The authorisation for this authorised capital has not been used to date and will be revoked ahead of its expiry date as no outstanding share awards remain.

The Annual General Meeting on 9 February 2016 resolved an authorisation to issue new registered shares against cash contribution for up to a maximum of € 150.0 m. This authorisation will expire on 8 February 2021.

The Annual General Meeting on 9 February 2016 also resolved to create authorised capital for the issue of new shares against cash or non-cash contribution of up to € 570.0 m. The issue of new shares against non-cash contribution is limited to a maximum of € 300.0 m. The authorisation for this authorised capital will expire on 8 February 2021.

On the balance sheet date, the accumulated authorised capital that had not yet been taken up amounted to € 745.4 m (previous year € 746.3 m).

(25) Capital reserves

The capital reserves comprise transfers of premiums. They also comprise amounts entitling the holders to acquire shares in TUI AG in respect of bonds issued with conversion options and warrants. Premiums from the issue of shares due to the exercise of conversion options and warrants are also transferred to the capital reserve.

Capital reserves rose by € 2.8 m (previous year € 4.5 m) due to the issue of employee shares in the completed financial year.

(26) Revenue reserves

In financial year 2017, TUI AG paid a dividend of € 0.63 per no-par value share to its shareholders; the total amount paid was € 368.2 m (previous year € 327.0 m). The share of non-controlling interests declined by € 87.2 m in financial year 2017 due to the issue of dividends (previous year € 13.6 m). The year-on-year variation is essentially based on the payment of dividends to non-Group shareholders of RIUSA II S.A. of € 87.0 m.

The ongoing measurement of existing equity-settled stock option plans resulted in a decrease in equity of € 1.0 m in the reporting period. Disclosures on these long-term incentive programmes are outlined in the note on 'Share-based payments in accordance with IFRS 2' in Note 37.

Further, the Employee Benefit Trust of TUI Travel Ltd acquired shares in TUI AG in the first half of 2017 in order to use them for its stock option plans. The shares held by the Employee Benefit Trust were fully sold in the second half of the year. As the amounts paid and received were offset against revenue reserves as an acquisition or sale of own shares, equity rose by a total of € 10.1 m.

In the previous year, non-controlling interests were acquired for a consideration of € 6.5 m. The carrying amount of these interests was € 0.4 m. This is essentially attributable to the acquisition of non-controlling interests in Atraveo GmbH, Düsseldorf.

Foreign exchange differences comprise differences from the translation of the financial statements of foreign subsidiaries as well as differences from the translation of goodwill denominated in foreign currencies. They also comprise reclassification amounts totalling €–71.1 m to be recognised through profit or loss from the sale of Specialist Group in the completed financial year.

Movements of € – 31.8 m in financial instruments available for sale carried outside profit and loss comprise the increase in value from a rise in Hapag-Lloyd's share price and the subsequent full sale of these shares in financial year 2017. More detailed information on the development of fair values is presented in the section 'Financial assets available for sale' in Note 17.

The proportion of gains and losses from hedges used as effective hedges of future cash flows is carried directly in equity at € 263.6 m (pre-tax). A reversal of this provision through profit and loss takes place in the same period in which the hedged item has an effect on profit and loss or is no longer assessed as probable. The significant decrease in financial year 2017 is primarily attributable to changes in exchange rates and fuel prices.

The revaluation of pension obligations (in particular actuarial gains and losses) is also carried directly in equity.

The revaluation reserve formed in accordance with IAS 27 (old version) in the framework of step acquisitions of companies is retained until the date of deconsolidation of the company concerned. The sale of the Specialist Group resulted in a reclassification of an amount of € 1.8 m to other revenue reserves.

(27) Use of Group profit available for distribution

In accordance with the German Stock Corporation Act, the Annual General Meeting decides the use of the profit available for distribution carried in TUI AG's commercial-law annual financial statements. TUI AG's profit for the year amounts to € 741.7 m (previous year € 139.9 m). Taking account of profit carried forward of € 454.1 m (previous year € 682.4 m), TUI AG's profit available for distribution totals € 1,195.8 m (previous year € 822.3 m). A proposal will be submitted to the Annual General Meeting to use the profit available for distribution for the financial year to pay a dividend of € 0.65 per no-par value share and carry the amount of € 814.0 m remaining after deduction of the dividend total of € 381.8 m forward on account. The final dividend total will depend on the number of dividend-bearing no-par value shares at the date on which the resolution regarding the use of Group profit available for distribution is adopted by the Annual General Meeting.

(28) Non-controlling interest

Non-controlling interests mainly relate to RIUSA II S.A. based in Palma de Mallorca, Spain. TUI's capital share in this hotel operator stands at 50.0 %, as in the prior year.

The financial year of RIUSA II S.A. ends on 31 December and thus deviates from TUI Group's financial year. This reporting date was fixed when the company was founded. In order to include the RIUSA II Group in TUI Group's consolidated financial statements as at 30 September, the RIUSA II Group prepares sub-group financial statements as at 30 September, the balance sheet date.

RIUSA II Group, allocated to the Hotels & Resorts segment, operates owned and leased hotels and hotels operated under management contracts in tourism destinations of TUI Group. Due to the contractual agreements between the shareholders and the framework agreements with TUI Group as well as the considerable importance of tour operation for the economic success of RIUSA II Group, TUI Group is able to exercise a controlling influence on decisions about the most relevant activities and consequently the amount of returns. TUI Group is subject to variable returns from RIUSA II Group, in particular due to dividend payments and fluctuations in the value of the stake itself. RIUSA II Group is therefore fully consolidated although TUI Group only holds a 50 % equity stake.

The table below provides summarised financial information on RIUSA II S.A., Palma de Mallorca, Spain – the subsidiary for which material non-controlling interests exist. It presents the consolidated financial statements of the sub-group.

Summarised financial information on RIUSA II S.A., Palma de Mallorca, Spain*

€ million	30 Sep 2017 / 2017	30 Sep 2016 / 2016
Current assets	272.7	336.3
Non-current assets	1,400.8	1,296.5
Current liabiities	110.1	113.9
Non-current liabilities	29.3	22.1
Revenues	852.5	796.1
Profit / loss	231.0	221.4
Other comprehensive income	–19.8	– 42.4
Cash inflow / outflow from operating activities	251.7	292.4
Cash inflow / outflow from investing activities	–147.5	–166.8
Cash inflow / outflow from financing activities	–181.7	– 85.6
Accumulated non-controlling interest	591.2	572.6
Profit / loss attributable to non-controlling interest	115.5	110.7
Dividends attributable to non-controlling interest	87.0	11.0

* Consolidated Subgroup

(29) Pension provisions and similar obligations

A number of defined contribution and defined benefit pension plans are operated for Group employees. Pension obligations vary, reflecting the different legal, fiscal and economic conditions in each country of operation, and usually depend on employees' length of service and pay levels.

All defined contribution plans are funded by the payment of contributions to external insurance companies or funds. German employees enjoy benefits from a statutory defined contribution plan paying pensions as a function of employees' income and the contributions paid in. Several additional industry pension organisations exist for TUI Group companies. Once the contributions to the state-run pension plans and private pension insurance organisations have been paid, the Company has no further payment obligations. One major private pension fund is Aegon Levensverzekering N.V., operating the defined contribution pension plans for the main Dutch subsidiaries of TUI Group. Contributions paid are expensed for the respective period. In the reporting period, the expenses for all defined contribution plans totalled € 85.4 m (previous year € 81.9 m).

Apart from these defined contribution pension plans, the TUI Group operates defined benefit plans, which usually entail the formation of provisions within the Company or investments in funds outside the Company.

Within this group, MER-Pensionskasse VVaG, a private pension fund in which German companies of the tourism industry are organised, represents a multi-employer plan classified as a defined benefit plan. In accordance with the statues of the plan, the plan participants and the employers pay salary-based contributions into the plan. There are no further obligations pursuant to the statutes of the plan; an additional funding obligation of the participating companies is explicitly excluded. The paid-in contributions are invested in accordance with the policies of the pension plan unless they are used in the short term to deliver benefits. As the investments are pooled and are not kept separately for each participating employer, an allocation of plan assets to individual participating employers is not possible. The investment risk and the mortality risk are jointly shared by all plan participants. Moreover, the pension fund does not provide any information to participating companies that would allow the allocation of any over- or underfunding or TUI's participation in the plan. For this reason, accounting for the plan in accordance with the requirements of IAS 19 is not possible, and the plan is therefore classed as a defined contribution plan. In the reporting period, contributions to MER-Pensionskasse VvaG totalled € 5.9 m (previous year € 5.9 m). For the next financial year, contributions are expected to remain at that level.

TUI Group's major pension plans recognised as defined benefit plans exist in Germany and the UK. By far the largest pension plans are operated by the Group's tour operators in the UK. They accounted for 72.6 % (previous year 73.5 %) of TUI Group's total obligations at the balance sheet date. German plans account for a further 22.5 % (previous year 22.5 %).

In the UK, the following major pension plans linking pension payments to final salary and length of service are operated. The final remuneration to be taken into account is capped.

Material defined benefit plans in Great Britain

Scheme name	Status
BAL Scheme	closed
TUI UK Scheme	closed
TAPS Scheme	closed

Almost all defined benefit plans in the UK are funded externally. Under UK law, the employer is obliged to ensure sufficient funding so that plan assets cover the pension payments to be made and the administrative costs of the funds. The pension funds are managed by independent trustees. The trustees comprise independent members but also beneficiaries of the plan and employer representatives. The trustees are responsible for the investment of fund assets, taking account of the interests of plan members, but they also negotiate the level of the contributions to the fund to be paid by the employers, which constitute minimum contributions to the funds. To that end, actuarial valuations are made every three years by actuaries commissioned by the trustees. The annual contributions to be paid to the funds in order to cover any shortfalls were last defined in September 2016. On top of a fixed annual contribution, a certain percentage of the pensionable remuneration of plan members has to be paid into the plan.

By contrast, defined benefit plans in Germany are unfunded. The company assumes the obligation for payments of company pensions when the beneficiaries reach the legal retirement age. The amount of the pension paid usually depends on the remuneration received by the staff members at the retirement date. Pension obligations usually include surviving dependants' benefits and invalidity benefits.

Material defined benefit plans in Germany

Scheme name	Status
Versorgungsordnung TUI AG	open
Versorgungsordnung Hapag-Lloyd Fluggesellschaft GmbH	open
Versorgungsordnung TUI Deutschland GmbH	closed
Versorgungsordnung TUI Beteiligungs GmbH	closed
Versorgungsordnung Preussag Immobilien GmbH	closed

In the reporting period, defined benefit pension obligations created total expenses of € 90.0 m.

Pension costs for defined benefit obligations

€ million	**2017**	2016
Current service cost for employee service in the period	76.3	57.1
Curtailment gains	1.8	–
Net interest on the net defined benefit liability	15.7	27.6
Past service cost	– 0.2	–1.7
Total	**90.0**	**83.0**

Provisions for pension obligations are established for benefits payable in the form of retirement, invalidity and surviving dependants' benefits. Provisions are exclusively formed for defined benefit schemes under which the Company guarantees employees a specific pension level, including arrangements for early retirement and temporary assistance benefits.

Defined benefit obligation recognised on the balance sheet

€ million	**30 Sep 2017 Total**	30 Sep 2016 Total
Present value of funded obligations	2,892.3	3,249.9
Fair value of external plan assets	2,631.3	2,740.0
Deficit of funded plans	**261.0**	**509.9**
Present value of unfunded pension obligations	809.4	904.8
Defined benefit obligation recognised on the balance sheet	**1,070.4**	**1,414.7**
of which		
Overfunded plans in Other assets	**57.0**	**36.2**
Provisions for pensions and similar obligations	**1,127.4**	**1,450.9**
of which current	32.7	40.6
of which non-current	1,094.7	1,410.3

For funded pension plans, the provision carried only covers the shortfall in coverage between plan assets and the present value of benefit obligations.

Where plan assets exceed funded pension obligations, taking account of a difference due to past service cost, and where at the same time there is an entitlement to reimbursement or reduction of future contributions to the fund, the excess is recognised in conformity with the cap defined by IAS 19. As at 30 September 2017, other assets include excesses of € 57.0 m (previous year € 36.2 m).

Development of defined benefit obligations

€ million	Present value of obligation	Fair value of plan assets	Total
Balance as at 1 Oct 2016	**4,154.7**	**−2,740.0**	**1,414.7**
Current service cost	76.3	–	76.3
Past service cost	−0.2	–	−0.2
Curtailments and settlements	−6.3	4.5	−1.8
Interest expense (+)/interest income (–)	79.0	−63.3	15.7
Pensions paid	−152.6	118.9	−33.7
Contributions paid by employer	–	−107.6	−107.6
Contributions paid by employees	1.4	−1.4	–
Remeasurements	−405.2	124.5	−280.7
due to changes in financial assumptions	−289.2	–	−289.2
due to changes in demographic assumptions	−1.0	–	−1.0
due to experience adjustments	−115.0	–	−115.0
due to return on plan assets not included in group profit for the year	–	124.5	124.5
Exchange differences	−78.3	62.2	−16.1
Other changes	32.9	−29.1	3.8
Balance as at 30 Sep 2017	**3,701.7**	**−2,631.3**	**1,070.4**

Development of defined benefit obligations

€ million	Present value of obligation	Fair value of plan assets	Total
Balance as at 1 Oct 2015	**3,498.6**	**−2,366.9**	**1,131.7**
Current service cost	57.1	–	57.1
Past service cost	−1.7	–	−1.7
Curtailments and settlements	–	–	–
Interest expense (+)/interest income (–)	110.2	−82.6	27.6
Pensions paid	−163.6	128.3	−35.3
Contributions paid by employer	–	−300.2	−300.2
Contributions paid by employees	1.7	−1.7	–
Remeasurements	1,076.8	−483.5	593.3
due to changes in financial assumptions	1,083.3	–	1,083.3
due to changes in demographic assumptions	−1.1	–	−1.1
due to experience adjustments	−5.4	–	−5.5
due to return on plan assets not included in group profit for the year	–	−483.5	−483.4
Exchange differences	−420.8	363.8	−57.0
Other changes	−3.6	2.8	−0.8
Balance as at 30 Sep 2016	**4,154.7**	**−2,740.0**	**1,414.7**

In the reporting period, the present value of the pension obligations decreased by €453.0 m to €3,701.7 m, mainly due to the increase in interest rates in the Eurozone and the UK.

The Group's fund assets decreased by € 108.7 m in the same period and is split into asset categories as shown in the table below.

Composition of fund assets at the balance sheet date

	30 Sep 2017		30 Sep 2016	
	Quoted market price in an active market		Quoted market price in an active market	
€ million	yes	no	yes	no
Fair value of fund assets at end of period	**1,981.3**	**650.0**	**1,734.6**	**1,005.4**
of which equities	346.8	–	727.5	–
of which government bonds	41.9	–	104.9	–
of which corporate bonds	216.4	–	301.8	–
of which liability driven investments	707.3	–	489.2	–
of absolute return bonds	517.4	–	–	–
of which property	108.9	14.9	100.7	7.5
of which growth funds	–	143.1	–	83.3
of which insurance policies	–	119.7	–	137.2
of which insurance linked securities	–	136.0	–	65.6
of which loans	–	180.7	–	–
of which cash	–	30.0	–	585.2
of which other	42.6	25.6	10.5	126.6

At the balance sheet date, as in the prior year, fund assets did not comprise any direct investments in financial instruments issued by TUI AG or its consolidated subsidiaries or any property owned by the Group. For funded plans, investments in passive index tracker funds may entail a proportionate investment in Group-owned financial instruments.

Pension obligations are measured on the basis of actuarial calculations based on country-specific parameters and assumptions. The obligations under defined benefit plans are calculated on the basis of the internationally accepted projected unit credit method, taking account of expected future increases in salaries and pensions.

Actuarial assumptions

			30 Sep 2017
Percentage p.a.	Germany	Great Britain	Other countries
Discount rate	1.8	2.6	1.3
Projected future salary increases	2.5	2.8	1.3
Projected future pension increases	1.8	3.4	1.2

			30 Sep 2016
Percentage p.a.	Germany	Great Britain	Other countries
Discount rate	1.0	2.3	1.4
Projected future salary increases	2.5	2.7	1.4
Projected future pension increases	1.8	3.6	1.3

The interest rate applicable in discounting the provision for pensions is based on an index for corporate bonds adjusted for securities already downgraded and under observation by rating agencies as well as subordinate bonds in order to meet the criterion for high quality bonds (rated AA or higher) required under IAS 19. In order to cover a correspondingly broad market, an index partly based on shorter-term bonds is used (e.g. iBoxx € Corporates AA 7-10 for the Eurozone). The resulting yield structure is extrapolated on the basis of the yield curves for almost risk-free bonds, taking account of an appropriate risk mark-up reflecting the term of the obligation.

Apart from the parameters described above, a further key assumption relates to life expectancy. In Germany, the Heubeck reference tables 2005 G are used to determine life expectancy, as in the prior year. In the UK, the S1NxA base tables are used, adjusted to future expected increases on the basis of the Continuous Mortality Investigation (CMI) 2015. The pension in payment escalation formulae depend primarily on the pension plan concerned. Apart from fixed rates of increase, there are also a number of inflation-linked pension adjustment mechanisms in different countries.

Changes in the key actuarial assumptions mentioned above would lead to the changes in defined benefit obligations presented below. The methodology used to determine sensitivity corresponds to the method used to calculate the defined benefit obligation. The assumptions were amended in isolation each time; actual interdependencies between the assumptions were not taken into account. The effect of the increase in life expectancy by one year is calculated by means of a reduction in mortality due to the use of the Heubeck tables 2005 G for pension plans in Germany. In the UK, an extra year is added to the life expectancy determined on the basis of the mortality tables.

Sensitivity of the defined benefit obligation due to changed actuarial assumptions

	30 Sep 2017		30 Sep 2016	
€ million	**+50 Basis points**	**–50 Basis points**	+50 Basis points	–50 Basis points
Discount rate	–320.8	+368.2	–415.5	+484.7
Salary increase	+26.9	–25.6	+32.2	–30.7
Pension increase	+106.9	–109.6	+144.8	–137.3
	+1 year		+1 year	
Life expectancy	+142.3	–	+172.9	–

The weighted average duration of the defined benefit obligations totalled 19.5 years (previous year 21.7 years) for the overall Group. In the UK, the weighted duration was 20.7 years (previous year 23.5 years), while it stood at 16.0 years (previous year 16.6 years) in Germany.

Fund assets are determined on the basis of the fair values of the funds invested as at 30 September 2017. The interest rate used to determine the interest income from the assets of external funds is identical with the discount rate used for the defined benefit obligation.

For the forthcoming financial year, the companies of TUI Group are expected to contribute around € 183.1 m (previous year € 109.6 m) to pension funds and pay pensions worth € 32.7 m (previous year € 40.6 m) for unfunded plans. The year-on-year increase is primarily driven by a one-off payment of £ 50.0 m agreed with the trustees to reduce the existing coverage shortfall. For funded plans, payments to the recipients are fully made from fund assets so that TUI Group does not record a cash outflow as a result.

TUI Group's defined benefit plans entail various risks; some of which may have a substantial effect on the Company.

INVESTMENT RISK

The investment risk plays a major role, in particular for the large funded plans in the UK. Although shares usually outperform bonds in terms of producing higher returns, they also entail stronger volatility of balance sheet items and the risk of short-term shortfalls in coverage. In order to limit this risk, the trustees have built a balanced investment portfolio to limit the concentration of risks.

INTEREST RATE RISK

The interest rate influences in particular unfunded schemes in Germany as a decline in interest rates leads to an increase in the defined benefit obligations. Accordingly, an increase in the interest rate leads to a reduction in the defined benefit obligations. Funded plans are less strongly affected by this development as the performance of the interest-bearing assets included in plan assets regularly dampens the effects.

INFLATION RISK

An increase in the inflation rate normally increases the obligation in pension schemes linked to the final salary of beneficiaries as inflation causes an increase in the projected salary increases. At the same time, inflation-based pension increases included in the plan also rise. The inflation risk is reduced through the use of caps and collars. Moreover, the large pension funds in the UK hold inflation-linked assets, which also partly reduce the risk from a significant rise in inflation.

LONGEVITY RISK

An increasing life expectancy increases the expected benefit duration of the pension obligation. This risk is countered by using regularly updated mortality data in calculating the present values of the obligation.

CURRENCY RISK

For the TUI Group, the pension schemes entail a currency risk as most pension schemes are operated in the UK and therefore denominated in sterling. The risk is limited as the currency effects on the obligation and the assets partly offset each other. The currency risk only relates to the excess of pension obligations over plan assets.

(30) Other provisions

Development of provisions in the financial year 2017

€ million	Balance as at 30 Sep 2016	Changes with no effect on profit and loss*	Usage	Reversal	Additions	**Balance as at 30 Sep 2017**
Maintenance provisions	613.6	−6.8	83.9	27.2	119.7	615.4
Risks from onerous contracts	31.0	1.8	3.8	3.3	17.9	43.6
Restructuring provisions	24.0	−0.6	14.6	11.2	30.2	27.8
Provisions for other personnel costs	35.6	–	10.3	–	15.5	40.8
Provisions for other taxes	32.5	−2.2	0.5	0.1	5.5	35.2
Provisions for environmental protection	41.7	–	1.6	3.9	7.7	43.9
Provisions for Litigation	79.3	11.0	19.1	15.7	25.5	81.0
Miscellaneous provisions	320.1	4.5	118.1	38.0	95.1	263.6
Other provisions	**1,177.8**	**7.7**	**251.9**	**99.4**	**317.1**	**1,151.3**

* Reclassifications, transfers, exchange differences and changes in the group of consolidated companies.

Provisions for external maintenance primarily relate to contractual maintenance, overhaul and repair requirements for aircraft, engines and other specific components arising from aircraft operating lease contracts. Measurement of these provisions is based on the expected cost of the next maintenance event, estimated on the basis of current prices, expected price increases and manufacturers' data sheets. In line with the terms of the individual contracts and the aircraft model concerned, additions are recognised on a prorated basis in relation to flight hours, the number of flights or the length of the complete maintenance cycle.

Provisions for onerous contracts principally relate to unfavourable lease contracts. The increase in financial year 2017 is mainly driven by aircraft leases.

Restructuring provisions comprise severance payments to employees and payments for the early termination of lease agreements. They primarily relate to restructuring projects in France and the UK for which detailed, formal restructuring plans have been drawn up and communicated to the parties concerned. The restructuring provisions included at the balance sheet date of € 27.8 m (previous year € 24.0 m) largely relate to benefits for employees in connection with the termination of employment contracts.

Provisions for personnel costs comprise provisions for jubilee benefits and provisions for cash-settled share-based payment schemes in accordance with IFRS 2. Information on these long-term incentive programmes is presented under Note 37 in the section 'Share-based payments in accordance with IFRS 2'.

Provisions for environmental protection measures primarily relate to statutory obligations to remediate sites contaminated with legacy waste from former mining and metallurgical activities.

Provisions for litigation are established in relation to existing lawsuits. Taken individually, none of the lawsuits has a significant influence on TUI Group's economic position.

Changes in other provisions outside profit and loss primarily relate to changes in the group of consolidated companies, foreign exchange differences and reclassifications within other provisions.

Where the difference between the present value and the settlement value of a provision is material for the measurement of a non-current provision as at the balance sheet date, the provision is recognised at its present value in accordance with IAS 37. The discount rate to be applied should take account the specific risks of the provision and of future price increases. This criterion applies to some items contained in TUI Group's other provisions. Additions to other provisions comprise an interest portion of € 3.7 m (previous year € 6.7 m), recognised as an interest expense.

Terms to maturity of other provisions

	30 Sep 2017		30 Sep 2016	
€ million	Remaining term more than 1 year	**Total**	Remaining term more than 1 year	Total
Maintenance provisions	523.5	615.4	534.8	613.6
Risks from onerous contracts	13.4	43.6	18.2	31.0
Restructuring provisions	0.2	27.8	–	24.0
Provisions for other personnel costs	23.7	40.8	24.3	35.6
Provisions for other taxes	28.6	35.2	24.3	32.5
Provisions for environmental protection	39.4	43.9	37.6	41.7
Provisions for litigation	55.8	81.0	51.1	79.3
Miscellaneous provisions	116.8	263.6	112.7	320.1
Other provisions	**801.4**	**1,151.3**	**803.0**	**1,177.8**

(31) Financial liabilities

Financial liabilities

€ million	30 Sep 2017 Remaining term up to 1 year	1–5 years	more than 5 years	Total	30 Sep 2016 Remaining term up to 1 year	1–5 years	more than 5 years	Total
Bonds	–	295.8	–	295.8	306.5	–	–	306.5
Liabilities to banks	46.2	180.4	154.7	381.3	47.0	169.4	194.4	410.8
Liabilities from finance leases	96.2	405.3	725.0	1,226.5	92.2	349.0	790.5	1,231.7
Other financial liabilities	29.5	–	–	29.5	92.0	0.1	–	92.1
Total	**171.9**	**881.5**	**879.7**	**1,933.1**	**537.7**	**518.5**	**984.9**	**2,041.1**

Non-current financial liabilities increased year-on-year by € 257.8 m to € 1,761.2 m as at the balance sheet date. This decline was mainly driven by the issuance of a bond with a carrying amount of € 295.8 m in October 2016.

Current financial liabilities declined by € 365.8 m to € 171.9 m year-on-year as at 30 September 2017. The decrease is primarily attributable to the redemption of a bond issued in September 2014 with a carrying amount of € 306.5 m.

Fair values and carrying amounts of the bonds issued 30 Sep 2017

€ million	30 Sep 2017 Issuer	Nominal value initial	Nominal value outstanding	Interest rate % p.a.	Stock market value	Carrying amount	30 Sep 2016 Stock market value	Carrying amount
2014/19 bond	TUI AG	–	–	4.500	–	–	308.3	306.5
2016/21 bond	TUI AG	300.0	300.0	2.125	314.0	295.8	–	–
Total					**314.0**	**295.8**	**308.3**	**306.5**

The fixed-interest bond with a nominal value of € 300.0 m issued in October 2016 has a coupon of 2.125 % p.a. The bond will mature on 26 October 2021. It can be redeemed ahead of its maturity date any time at its value as at the redemption date. In addition, a 100 % redemption option exists as per 26 July 2021.

(32) Other liabilities

Other liabilities

€ million	30 Sep 2017 Remaining term up to 1 year	30 Sep 2017 Remaining term 1–5 years	30 Sep 2017 Total	30 Sep 2016 Remaining term up to 1 year	30 Sep 2016 Remaining term 1–5 years	30 Sep 2016 Total
Other liabilities relating to employees	238.7	22.8	261.5	237.8	17.1	254.9
Other liabilities relating to social security	49.4	–	49.4	45.7	–	45.7
Other liabilities relating to other taxes	26.6	–	26.6	27.8	–	27.8
Other miscellaneous liabilities	239.4	44.0	283.4	221.7	69.9	291.6
Deferred income	43.9	83.4	127.3	38.1	73.1	111.2
Other liabilities	**598.0**	**150.2**	**748.2**	**571.1**	**160.1**	**731.2**

(33) Liabilities related to assets held for sale

In the prior year, the liabilities of the discontinued operation Specialist Group were presented in this line. For more detailed information, reference is made to the section 'Discontinued operations'.

(34) Contingent liabilities

As at 30 September 2017, contingent liabilities amounted to € 156.1 m (previous year € 326.1 m). Contingent liabilities are reported at an amount representing the best estimate of the potential expenditure that would be required to meet the potential obligation as at the balance sheet date. Contingent liabilities decreased by € 170.0 m year-on-year. This primarily resulted from the repayment by Hapag-Lloyd AG of a bank loan guaranteed by TUI. Contingent liabilities as at 30 September 2017 are mainly attributable to the granting of guarantees for the benefit of cruise and hotel activities.

(35) Litigation

TUI AG and its subsidiaries are involved in several pending or foreseeable court or arbitration proceedings, which do not have a significant impact on their economic position as at 30 September 2017 or future periods. This also applies to actions claiming warranty, repayment or any other compensation in connection with the divestment of subsidiaries and business units over the past few years. As in previous years, the Group recognised adequate provisions, partly covered by expected insurance benefits, to cover all financial charges from court or arbitration proceedings.

(36) Other financial commitments

Financial commitments from operating lease and rental contracts

€ million	30 Sep 2017 Remaining term up to 1 year	1–5 years	5–10 years	more than 10 years	Total	30 Sep 2016 Remaining term up to 1 year	1–5 years	5–10 years	more than 10 years	Total
Aircraft	365.2	866.2	229.7	–	1,461.1	391.7	1,125.7	368.9	–	1,886.3
Hotel complexes	237.9	413.6	66.9	10.0	728.4	242.3	411.9	67.7	10.0	731.9
Travel agencies	62.8	117.3	28.7	8.3	217.1	67.9	124.8	30.4	6.0	229.1
Administrative buildings	37.2	102.1	54.2	40.3	233.8	43.4	108.7	64.7	54.4	271.2
Ships, Yachts and Motorboats	27.1	2.1	–	–	29.2	99.6	104.7	0.3	–	204.6
Other	20.3	27.4	8.7	51.4	107.8	22.5	26.1	8.9	56.8	114.3
Total	**750.5**	**1,528.7**	**388.2**	**110.0**	**2,777.4**	**867.4**	**1,901.9**	**540.9**	**127.2**	**3,437.4**

The commitments from lease, rental and charter agreements exclusively relate to leases that do not transfer all risks and rewards of ownership of the assets to the TUI Group companies in accordance with IFRS rules (operating leases). The average basic lease term is around 9 years.

The decrease in liabilities as against 30 September 2016 results above all from lower lease obligations for aircraft. Higher lease obligations due to the commissioning of new aircraft were more than offset by the lease payments made in the financial year. The lease obligations for ships, yachts and motor boats are down year-on-year as the obligations were significantly reduced due to the sale of Travelopia. A further decline was driven by foreign exchange effects for liabilities denominated in foreign currencies.

Order commitments in respect of capital expenditure and other financial commitments

€ million	30 Sep 2017 Remaining term up to 1 year	1–5 years	more than 5 years	Total	30 Sep 2016 Remaining term up to 1 year	1–5 years	more than 5 years	Total
Order commitments in respect of capital expenditure	733.0	2,769.4	662.1	4,164.5	657.1	2,929.7	1,199.9	4,786.7
Other financial commitments	49.6	46.3	–	95.9	68.1	45.9	–	114.0
Total	**782.6**	**2,815.7**	**662.1**	**4,260.4**	**725.2**	**2,975.6**	**1,199.9**	**4,900.7**

As at 30 September 2017, order commitments in respect of capital expenditure relating almost exclusively to Tourism declined by € 622.2 m year-on-year. This was due to various factors including the delivery of Marella Discovery and an aircraft. Further declines resulted from additional down payments for aircraft and aircraft equipment as well as foreign exchange effects for liabilities denominated in non-functional currencies, which were partly offset by new order commitments for aircraft.

(37) Share-based payments in accordance with IFRS 2

As at 30 September 2017, all existing awards except oneShare are recognized as cash-settled share-based payment schemes.

The following share-based payment schemes are in effect within TUI Group as at 30 September 2017.

MULTI-ANNUAL BONUS PAYMENT (MEV)

The long-term incentive programme for Board members is based on phantom shares. In each financial year, a new period of performance measurements commences, spanning the current plus the following three financial years. As a result, each performance measurement period has a general term of four years. All Board members have their individual target amount defined in their service contract. This is translated at the beginning of each performance measurement period into phantom shares based on the average price of TUI AG shares ('preliminary number of phantom shares'). The average share price is calculated based on the share prices during the 20 days prior to the beginning of any financial year. The entitlement under the long-term incentive programme arises upon completion of the four-year performance period.

Upon the completion of the four-year performance period, the preliminary number of phantom shares is multiplied by the degree of target achievement. This degree is determined by the rank achieved by TUI AG when comparing the total shareholder return (TSR) of companies listed in the 'Dow Jones Stoxx 600 Travel & Leisure' index. The rank is subsequently translated into a percentage, which is the degree of target achievement. If the degree of target achievement is less than 25 %, no preliminary phantom shares are remunerated. If the degree of target achievement exceeds 25 %, it is multiplied by the number of preliminary phantom shares granted, subject to a cap of 175 %. At the end of the four-year performance period, the number of phantom shares determined in this way is multiplied by the average price (20 trading days) of TUI AG shares, and the resulting amount is paid out in cash. The maximum amount payable under the long-term incentive programme has been capped for each individual.

If the conditions mentioned above are met, upon expiry of the performance period, the awards are automatically exercised. If the conditions are not met, the awards are forfeited. The service period will be restricted to the end of the employment period if plan participants leave the Company, as long as employment is not terminated due to a significant reason within the sphere of responsibility of the participant or by the participant without cause.

PERFORMANCE SHARE PLAN (PSP)

The PSP details the share-based payments for entitled Group executives who are not part of the Board. The scheme conditions are harmonized with the Multi-Annual bonus plan of the Board members with the notable exception of a three year performance period instead of four years. Target amounts and grant frequency are subject to individual contractual agreements.

Since MEV and PSP follow common scheme principles, the following development of awarded phantom shares under the programs are shown on a aggregated basis.

Development of phantom shares awarded

	Number of shares	Present value € million
Balance as at 30 Sep 2015	**730,841**	**12.0**
Phantom shares awarded	254,023	3.8
Phantom shares exercised	– 322,613	– 4.0
Phantom shares forfeited	–	–
Measurement results	–	– 3.6
Balance as at 30 Sep 2016	**662,251**	**8.2**
Phantom shares awarded	931,575	11.7
Phantom shares exercised	– 219,368	– 3.2
Phantom shares forfeited	–117,604	–1.5
Measurement results	–	3.1
Balance as at 30 Sep 2017	**1,256,854**	**18.3**

EMPLOYEE SHARE PROGRAM 'ONESHARE'

Eligible employees can acquire TUI AG shares under preferential conditions when participating in the oneShare program. The preferential conditions include a discount on 'investment' shares bought during a twelve month investment period plus one 'matching' share per three held investment shares, after a lock up period of two years. Investment shares are created via capital increase, while matching shares are bought on the open market. Eligible employees decide once a year about their participation in oneShare. In the financal year 2017, two oneShare tranches commenced, the first with a short investment period of four months, the second with a regularised twelve month period. Going forward, one tranche will be commenced per annum.

Since investment and matching shares are equity instruments of TUI AG, oneShare is accounted for as an equity-settled share-based payment scheme in line with IFRS 2. Once all eligible employees have decided upon or against their yearly particpiation, the fair value of the equity instrument granted is calculated one time on the basis of the proportional shares price at grant date taking into consideration the discounted estimated dividends.

The development of acquired investment and estimated matching shares, as well as the parameters used for the calculation of the fair value are as follows:

Overview oneShare tranches

		Tranche 1 (2017/3)	Tranche 2 (2017/7)	**Total**
Investment period		1 Apr 2017 – 31 Jul 2017	1 Aug 2017 – 31 Jul 2018	–
Matching date		30 Sep 2019	30 Sep 2020	–
Acquired investment shares		349,941	53,097	403,038
Forfeited investment shares		1,228	–	1,228
Initially estimated matching shares		116,647	17,699	134,346
Forfeited matching shares		409	–	409
Share price at grant date	in €	12.99	13.27	–
Fair value: Discount per investment share	in €	2.60	2.02	–
recognised estimated dividend	in €	–	0.63	–
Fair value: matching share	in €	11.65	11.15	–
recognised discounted estimated dividend	in €	1.34	2.11	–

CLOSED SHARE-BASED PAYMENT SCHEMES

The following share-based payment schemes are closed, no new awards are granted. Awards made in the past remain valid and will vest according to the respective plan conditions.

TUI AG STOCK OPTION PLAN

The stock option plan for entitled Group executives below Board level was closed during financial year 2016. The last tranche was granted in February 2016 and will vest in February 2018.

Bonuses were granted to Group executives entitled to receive a bonus; the bonuses were translated into phantom shares in TUI AG on the basis of an average share price. The phantom shares were calculated on the basis of Group earnings before interest, taxes and amortisation of goodwill (EBITA). The translation into phantom shares was based on the average share 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 shares granted in a financial year was, therefore, only determined in the subsequent year. Following a lock-up period of two years, the individual beneficiaries are free to exercise their right to cash payment from this bonus within three years. Following significant corporate news, the entitlements have to be exercised within defined timeframes. The lock-up period is not applicable if a beneficiary leaves the Company; in that case, the entitlements have to be exercised in the next time window. The level of the cash payment depends on the average share price of the TUI share over a period of 20 trading days after the exercise date. There are no absolute or relative return or share price targets. A cap has been agreed for exceptional, unforeseen developments.

Since the strike price is € 0.00 and the incentive programme does not entail a vesting period, the fair value corresponds to the intrinsic value and hence the market price at the balance sheet date. Accordingly, the fair value of the obligation is determined by multiplying the number of phantom shares with the share price at the respective reporting date.

From the stock option plan which closed during the financial year 2016, as at 30 September 2017 153,760 share options are outstanding, thereof 61,008 share options (valued at € 0.9 m) have vested. Since the plan is closed, no new grants were made, 298,040 options were exercised (total value of € 3.9 m) and no options were forfeited.

SHARE-BASED PAYMENT SCHEMES OF FORMER TUI TRAVEL PLC

The three principal schemes below were all closed to new participants during the financial year 2016. The last two tranches will vest in December 2017 and December 2018 with cash settlement.

The share option awards of these remuneration schemes will only vest if the average annual return on invested capital (ROIC) is at least equal to the average weighted average cost of capital (WACC) over a period of three years. If this condition is fulfilled, the number of vesting awards is determined as a function of the fulfilment of the following performance conditions.

PERFORMANCE SHARE PLAN (PSP)

Up to 50 % of these awards granted will vest based on growth in the Group's reported earnings per share (EPS) relative to the UK Retail Price Index. Up to 25 % of the awards will vest based on the Group's total shareholder return (TSR) performance relative to an average of the TSR performance of an index of other capital market-orientated travel and tourism companies. Likewise, up to 25 % of the awards vest if the Group's average return on invested capital (ROIC) meets predefined targets.

DEFERRED ANNUAL BONUS SCHEME (DABS)

The awards granted under this scheme vest upon completion of a three-year period at the earliest. Up to 50 % of the granted awards will vest based on growth in earnings per share (EPS) relative to the UK Retail Price Index (RPI). 25 % of the awards will vest based on total shareholder return (TSR) performance relative to the TSR performance of other capital market-oriented travel and tourism companies. Likewise, up to 25 % of the awards will vest if the average return on invested capital (ROIC) meets certain targets.

DEFERRED ANNUAL BONUS LONG-TERM INCENTIVE SCHEME (DABLIS)

The Deferred Annual Bonus Long-Term Incentive Scheme (DABLIS), for executive staff (except for the Executive Board) requires a 25 % conversion of any annual variable compensation into share options. Some eligible staff have been awarded further (matching) share option awards as additional bonuses. Matching share options are limited to four times the converted amount. The earliest point for the share options to be eligible for release is at the end of a three-year period. Up to 50 % of the awards will vest based on achievement of certain EBITA targets. Up to 25 % of awards will vest based on the earnings per share (EPS) performance relative to the UK Retail Price Index and up to 25 % based on the total shareholder return (TSR) performance in relation to the TSR performance of other capital market-oriented travel and tourism companies.

The development of awards granted under DABS, DABLIS and the closed PSP of the former TUI Travel PLC schemes is as follows:

Development of phantom shares options awarded

	Number of shares	Present value € million
Balance as at 30 Sep 2015	**1,604,386**	**26.7**
Phantom share options awarded	829,786	13.5
Phantom share options exercised	402,039	6.5
Phantom share options forfeited	292,200	4.8
Measurement results	–	– 6.7
Balance as at 30 Sep 2016	**1,739,933**	**22.2**
Phantom share options awarded	–	–
Phantom share options exercised	171,351	2.2
Phantom share options forfeited	210,912	2.7
Measurement results	–	2.2
Balance as at 30 Sep 2017	**1,357,670**	**19.5**

All other outstanding equity-settled awards of subsidiaries were compensated during the financial year 2017.

Development of share options granted

	Number of shares
Balance as at 30 Sep 2015	**5,026,498**
Granted during the financial year	–
Exercised during the financial year	3,208,179
Forfeited during the financial year	677,243
Balance as at 30 Sep 2016	**1,141,076**
Granted during the financial year	–
Exercised during the financial year	924,247
Forfeited during the financial year	216,829
Balance as at 30 Sep 2017	**–**

The weighted average TUI AG share price was € 12.32 at exercise date (previous year € 14.76).

ACCOUNTING FOR SHARE-BASED PAYMENT SCHEMES

As at 30 September 2017, all existing awards except oneShare are recognized as cash-settled share-based payment schemes and are granted with an exercise price of € 0.00. The personnel expense is recognized upon actual delivery of service according to IFRS 2 and is, therefore, spread over a period of time. According to IFRS 2, all contractually granted entitlements have to be accounted for, irrespective of whether and when they are actually awarded. Accordingly, phantom shares granted in the past are charged on a pro rata basis upon actual delivery of service.

In the financial year 2017, personnel expenses due to cash-settled share-based payment schemes of € 11.1 m (previous year € 14.1 m) were recognised through profit and loss.

As at 30 September 2017 provisions relating to entitlements under these long-term incentive programmes totaled € 32.9 m and further € 1.6 m were included as liabilities (previous year provisions of € 25.9 m and € 1.9 m liabilities).

In financial year 2017, personnel expenses due to equity-settled share-based payment schemes of € 1.9 m (previous year € 6.2 m) were recognised through profit and loss.

(38) 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 financial goals, financial risks have to be mitigated. In order to achieve this, policies and procedures have been developed to manage risk associated with financial transactions undertaken.

The rules, responsibilities and processes as well as limits for transactions and risk positions have been defined in policies. The trading, processing and control have been segregated in functional and organisational terms. Compliance with the policies and limits is continually monitored. All hedges by the TUI Group are consistently based on recognised or forecasted underlying transactions. Standard software is used for assessing, monitoring, reporting, documenting and reviewing the effectiveness of the hedging relationships for the hedges entered into. In this context, the fair values of all derivative financial instruments determined on the basis of the Group's own systems are regularly compared with the fair value confirmations from the external counterparties. The processes, the methods applied and the organisation of risk management are reviewed for compliance with the relevant regulations on at least an annual basis by the internal audit department and external auditors.

Within the TUI Group, financial risks primarily arise from cash flows in foreign currencies, fuel requirements (jet fuel and bunker oil) and financing via the money and capital markets. In order to limit the risks from changes in exchange rates, market prices and interest rates for underlying transactions, the TUI Group uses over-the-counter derivative financial instruments. These are primarily fixed-price transactions. In addition, the TUI Group also uses options and structured products. Use of derivative financial instruments is confined to internally fixed limits and other policies. The transactions are concluded on an arm's length basis with counterparties operating in the financial sector, whose counterparty risk is regularly monitored. Foreign exchange translation risks from the consolidation of Group companies not preparing their accounts in euros are not hedged.

MARKET RISK

Market risks result in fluctuations in earnings, equity and cash flows. In order to limit or eliminate these risks, the TUI Group has developed various hedging strategies, including the use of derivative financial instruments.

IFRS 7 requires the presentation of a sensitivity analysis showing the effects of hypothetical changes in relevant market risk variables on profit or loss and equity. 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. It is assured that the portfolio of financial instruments as at the balance sheet date is representative for the entire financial year.

The analyses of the TUI Group's risk reduction activities outlined below and the amounts determined using sensitivity analyses represent hypothetical and thus uncertain risks. Due to unforeseeable developments in the global financial markets, actual results may deviate substantially from the disclosures provided. The risk analysis methods used must not be considered a projection 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 sovereign, business and legal risks not covered by the following presentation of risks.

CURRENCY RISK

The business operations of the TUI Group's companies generate payments or receipts denominated in foreign currencies, which are not always matched by payments or receipts 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), the TUI Group enters into appropriate hedges with external counterparties in order to protect its profit margin from exchange rate-related fluctuations.

Within the TUI Group, risks from exchange rate fluctuations are hedged, with the largest hedging volumes relating to US dollars, euros and pound sterling. The Eurozone limits the currency risk from transactions in the key tourist destinations to Group companies whose functional currency is not the euro. The tourism business operations are mainly affected by changes in the value of the US dollar and the euro, the latter predominantly affecting the TUI tour operators in the UK and the Nordic countries. In tourism operations, payments in US dollars primarily relate to the procurement of services in non-European destinations, purchases of jet and ship fuel and aircraft and cruise ship purchases or charter.

The tourism companies use financial derivatives to hedge their planned foreign exchange requirements. They aim to cover 80 % to 100 % of the planned currency requirements at the beginning of the tourism season. In this regard, account is taken of the different risk profiles of the TUI Group companies. The hedged currency volumes are adjusted in line with changes in planned requirements based on reporting by business units.

Currency risks within the meaning of IFRS 7 arise from primary and derivative monetary financial instruments issued in a currency other than the functional currency of a company. Exchange rate-related differences from the translation of financial statements into the Group's presentation currency are 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. A 10 % strengthening or weakening of the respective functional currencies, primarily euro and pound sterling, against the other currencies would cause the following effects on the revaluation reserve and earnings after income tax:

Sensitivity analysis – currency risk

€ million	**30 Sep 2017**		30 Sep 2016	
Variable: Foreign exchange rate	**+10 %**	**–10 %**	+10 %	–10 %
Exchange rates of key currencies				
€ / US dollar				
Revaluation reserve	–108.3	+109.4	–123.4	+124.0
Earnings after income taxes	–2.3	+0.9	–6.5	+6.7
Pound sterling / €				
Revaluation reserve	+197.4	–190.9	+176.0	–176.0
Earnings after income taxes	–8.9	–2.2	–8.4	+3.5
Pound sterling / US dollar				
Revaluation reserve	–138.9	+133.4	–114.3	+114.3
Earnings after income taxes	+18.8	–13.3	+10.0	–10.0
€ / Swedish krona				
Revaluation reserve	+31.7	–31.7	–0.7	+0.7
Earnings after income taxes	–	–	–	–

INTEREST RATE RISK

The TUI Group is exposed to interest rate risks from floating-rate primary and derivative financial instruments. Where interest-driven cash flows of floating-rate primary financial instruments are converted into fixed cash flows using derivative hedges, they are not exposed to an interest rate risk. No interest rate risk exists for fixed-interest financial instruments carried at amortised cost.

Changes in market interest rates mainly impact floating-rate primary financial instruments and derivative financial instruments entered into in order to reduce interest-induced cashflow fluctuations.

The table below presents the equity and earnings effects of an assumed increase or decrease in the market interest rate of 50 base points as at the balance sheet date.

Sensitivity analysis – interest rate risk

€ million	**30 Sep 2017**		30 Sep 2016	
Variable: Interest rate level for floating interest-bearing debt	**+50 basis points**	**–50 basis points**	+50 basis points	–50 basis points
Revaluation reserve	+2.9	–2.9	–	–
Earnings after income taxes	+2.4	–2.4	+2.6	–2.6

FUEL PRICE RISK

Due to the nature of its business operations, the TUI Group is exposed to market price risks from the purchase of fuel, both for the aircraft fleet and the cruise ships.

The tourism companies use financial derivatives to hedge their exposure to market price risks for the planned consumption of fuel. At the beginning of the touristic season the target hedging ratio is at least 80 %. The different risk profiles of the Group companies operating in different source markets are taken into account, including the possibility of levying fuel surcharges. The hedging volumes are adjusted for changes in planned consumption as identified by the Group companies.

If the commodity prices, which underlie the fuel price hedges, increase or decrease by 10 % on the balance sheet date, the impact on equity and on earnings after income taxes would be as shown in the table below.

Sensitivity analysis – fuel price risk

€ million	**30 Sep 2017**		30 Sep 2016	
Variable: Fuel prices for aircraft and ships	**+10 %**	**–10 %**	+10 %	–10 %
Revaluation reserve	+84.1	–83.9	+81.2	–80.8
Earnings after income taxes	–0.2	+0.2	–0.3	–

OTHER PRICE RISKS

Apart from the financial risks that may result from changes in exchange rates, commodity prices and interest rates, the TUI Group is not exposed to significant price risks at the balance sheet date.

CREDIT RISK

The credit risk in non-derivative financial instruments results from the risk of counterparties defaulting on their contractual payment obligations.

Maximum credit risk exposure corresponds to the total of the recognised carrying amounts of the financial assets (including derivative financial instruments with positive market values). It also relates to the granting of financial guarantees for the discharge of liabilities. Details concerning the guarantees at the balance sheet date are presented in Note 22. Where legally enforceable, financial assets and liabilities are netted. Credit risks are reviewed closely on conclusion of the contract and continually monitored thereafter in order to swiftly respond to potential impairment in a counterparty's solvency. Responsibility for handling the credit risk is held by the Group company holding the receivable.

Since the TUI Group operates in many different business areas and regions, significant credit risk concentrations of receivables from and loans to specific debtors or groups of debtors are not to be expected. A significant concentration of credit risks related to specific countries is not to be expected either. As in the previous year, at the balance sheet date, there is no material collateral held, or other credit enhancements that reduce the maximum credit risk. Collateral held in the prior period relates exclusively to financial assets of the category Trade receivable and other assets. The collateral mainly comprises collateral for financial receivables granted and maturing in more than one year and / or with a volume of more than € 1 m. Rights in rem, directly enforceable guarantees, bank guarantees and comfort letters are used as collateral.

Identifiable credit risks of individual receivables are subject to provisions for bad debts. In addition, portfolios are impaired based on observed values. An analysis of the aging structure of the category Trade receivables and other assets is presented in Note 18.

Credit management also covers the TUI Group's derivative financial instruments. The maximum credit risk for derivative financial instruments entered into is limited to the total of all positive market values of these instruments since in the event of counterparty default asset losses would only be incurred up to that amount. Since derivative financial instruments are concluded with different debtors, credit risk exposure is reduced. The specific credit risks of individual counterparties are taken into account in determining the fair values of derivative financial instruments. In addition, the counterparty risk is continually monitored and controlled using internal bank limits.

LIQUIDITY RISK

Liquidity risks arise from the TUI Group being unable to meet its short term financial obligations and the resulting increases in funding costs. TUI has established an internal liquidity management system to secure TUI Group's liquidity at all times and consistently comply with contractual payment obligations. To that end, TUI Group's liquidity management system uses the opportunities of physical and virtual cash pooling for more efficient liquidity pooling. It also uses credit lines to compensate the seasonal fluctuations in liquidity resulting from the tourism business. The core credit facility is a syndicated revolving credit facility with banks with a volume of € 1,535 m as a cash line.

As in the previous year, no material assets were deposited as collateral for liabilities. Moreover, the Group companies participating in the cash pool are jointly and severally liable for financial liabilities from cash pooling agreements.

The tables provided below list the contractually agreed (undiscounted) cash flows of all primary financial liabilities and derivative financial instruments as at the balance sheet date. Planned payments for future new liabilities were not taken into account. Where financial liabilities have a floating interest rate, the forward interest rates fixed at the balance sheet date were used to determine future interest payments. Financial liabilities cancellable at any time are allocated to the earliest maturity band.

Cash flow of financial instruments – financial liabilities (30 Sep 2017)

	Cash outflow until 30 Sep							
	up to 1 year		1–2 years		2–5 years		more than 5 years	
€ million	**repayment**	**interest**	repayment	interest	repayment	interest	repayment	interest
Financial liabilities								
Bonds	–	–6.4	–	–6.4	–300.0	–19.3	–	–
Liabilities to banks	–46.2	–11.6	–42.2	–10.3	–138.2	–22.6	–154.7	–10.4
Liabilities from finance leases	–96.2	–32.0	–100.2	–32.5	–305.1	–75.3	–725.0	–54.4
Other financial liabilities	–29.5	–0.1	–	–	–	–	–	–
Trade payables	–2,653.3	–	–	–	–	–	–	–
Other liabilities	–185.5	–28.6	–20.7	–	–22.2	–	–	–

Cash flow of financial instruments – financial liabilities (30 Sep 2016)

	Cash outflow until 30 Sep							
	up to 1 year		1–2 years		2–5 years		more than 5 years	
€ million	**repayment**	**interest**	repayment	interest	repayment	interest	repayment	interest
Financial liabilities								
Bonds	–	–13.5	–	–13.5	–300.0	–20.3	–	–
Liabilities to banks	–47.0	–12.0	–47.6	–12.4	–121.8	–32.2	–194.4	–31.6
Liabilities from finance leases	–92.2	–33.5	–91.2	–31.6	–257.8	–81.8	–790.5	–71.5
Other financial liabilities	–92.0	–0.1	–0.1	–	–	–	–	–
Trade payables	–2,476.9	–	–	–	–	–	–	–
Other liabilities	–175.7	–19.8	–8.4	–	–	–	–	–

Cash flow of derivative financial instruments (30 Sep 2017)

	Cash in-/outflow until 30 Sep			
€ million	**up to 1 year**	1–2 years	2–5 years	more than 5 years
Derivative financial instruments				
Hedging transactions – inflows	+6,449.2	+1,621.7	+196.3	–
Hedging transactions – outflows	–6,487.6	–1,602.5	–198.8	–0.7
Other derivative financial instruments – inflows	+1,108.9	+127.0	+12.2	–
Other derivative financial instruments – outflows	–1,108.2	–123.2	–12.2	–

Cash flow of derivative financial instruments (30 Sep 2016)

€ million	Cash in-/outflow until 30 Sep up to 1 year	1–2 years	2–5 years	more than 5 years
Derivative financial instruments				
Hedging transactions – inflows	+7,362.3	+1,587.1	+345.3	–
Hedging transactions – outflows	–7,062.0	–1,531.3	–316.0	–
Other derivative financial instruments – inflows	+1,688.0	+44.4	+0.7	–
Other derivative financial instruments – outflows	–1,714.5	–43.0	–0.8	–

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

STRATEGY AND GOALS

In accordance with the TUI Group's policy, derivatives are allowed to be used if they are based on underlying recognised assets or liabilities, firm commitments or forecasted transactions. Hedge accounting based on the rules of IAS 39 is applied to forecasted transactions. In the completed financial year, hedges consisted of cash flow hedges.

Derivative financial instruments in the form of fixed-price transactions and options as well as structured products are used to limit currency, interest rate and fuel risks.

CASH FLOW HEDGES

As at 30 September 2017, hedges existed to manage cash flows in foreign currencies with maturities of up to four years (previous year up to five years). The fuel price hedges had terms of up to four years (previous year up to four years). Hedges to protect variable interest payment obligations have terms of up to fourteen years (previous year none).

In accounting for cash flow hedges, the effective portion of the cumulative change in market value is carried in the revaluation reserve outside profit and loss until the hedged item occurs. It is carried in the income statement through profit and loss when the hedged item is executed. In the completed financial year, income of € 371.8 m (previous year income of € 40.4 m) for currency hedges and derivative financial instruments used as price hedges were carried in the cost of sales. As in the previous year, there was no result from interest hedges. Expenses of € 4.5 m (previous year income of € 1.6 m) was carried for the ineffective portion of the cash flow hedges.

Nominal amounts of derivative financial instruments used

			30 Sep 2017			30 Sep 2016
	Remaining term			Remaining term		
€ million	up to 1 year	more than 1 year	**Total**	up to 1 year	more than 1 year	Total
Interest rate hedges						
Caps	150.0	115.6	265.6	–	150.0	150.0
Swaps	–	255.4	255.4	–	25.2	25.2
Currency hedges						
Forwards	7,010.8	1,854.6	8,865.4	8,924.1	2,006.3	10,930.4
Options	–	–	–	–	–	–
Structured instruments	113.5	–	113.5	63.0	10.9	73.9
Commodity hedges						
Swaps	754.3	407.9	1,162.2	779.9	476.6	1,256.5
Options	19.9	–	19.9	20.7	–	20.7

The nominal amounts correspond to the total of all purchase or sale amounts or the contract values of the transactions.

FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments generally correspond to the market value. The market price determined for all derivative financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A description of the determination of the fair values of derivative financial instruments is provided with the classification of financial instruments measured at fair value.

Positive and negative fair values of derivative financial instruments shown as receivables or liabilities

	30 Sep 2017		30 Sep 2016	
€ million	**Receivables**	**Liabilities**	Receivables	Liabilities
Cash flow hedges for				
currency risks	168.6	217.4	480.7	104.0
other market price risks	91.2	11.1	59.0	115.0
interest rate risks	–	0.7	–	–
Hedging	**259.8**	**229.2**	**539.7**	**219.0**
Other derivative financial instruments	**35.5**	**38.4**	**131.7**	**58.1**
Total	**295.3**	**267.6**	**671.4**	**277.1**

Financial instruments which are entered into in order to hedge a risk position according to operational criteria but do not meet the criteria of IAS 39 to qualify for hedge accounting are shown as other derivative financial instruments. They include foreign currency transactions entered into in order to hedge against foreign exchange-exposure to changes in the value of balance sheet items and foreign exchange fluctuations from future expenses in Tourism.

FINANCIAL INSTRUMENTS – ADDITIONAL DISCLOSURES

CARRYING AMOUNTS AND FAIR VALUES

Where financial instruments are listed in an active market, e. g. shares held and bonds issued, the fair value or market value is the respective quotation in this market at the balance sheet date. For over-the-counter bonds, liabilities to banks, promissory notes and other non-current financial liabilities, the fair value is determined as the present value of future cash flows, taking account of yield curves and the respective credit spread, which depends on the credit rating.

Due to the short remaining terms of cash and cash equivalents, current trade receivables and other assets, current trade payables and other payables, the carrying amounts are taken as realistic estimates of the fair value.

The fair values of non-current trade receivables and other assets correspond to the present values of the cash flows associated with the assets, taking account of current interest parameters which reflect market- and counterparty-related changes in terms and expectations. There are no financial investments held to maturity.

Carrying amounts and fair values according to classes and measurement categories as at 30 Sep 2017

€ million	Carrying amount	At amortised cost (Category under IAS 39)	At cost (Category under IAS 39)	Fair value with no effect on profit and loss (Category under IAS 39)	Fair value through profit and loss (Category under IAS 39)	Values according to IAS 17 (leases)	Carrying amount of financial instruments	Fair value of financial instruments
Assets								
Available for sale financial assets	69.5	–	43.5	26.0	–	–	69.5	69.5
Trade receivables and other assets	1,006.3	745.1	–	–	–	–	745.1	745.1
Derivative financial instruments								
Hedging	259.8	–	–	259.8	–	–	259.8	259.8
Other derivative financial instruments	35.5	–	–	–	35.5	–	35.5	35.5
Cash and cash equivalents	2,516.1	2,516.1	–	–	–	–	2,516.1	2,516.1
Liabilities								
Financial liabilities	1,933.1	706.6	–	–	–	1,226.5	706.6	714.0
Trade payables	2,653.3	2,652.4	–	–	–	–	2,652.4	2,652.4
Derivative financial instruments								
Hedging	229.2	–	–	229.2	–	–	229.2	229.2
Other derivative financial instruments	38.4	–	–	–	38.4	–	38.4	38.4
Other liabilities	748.2	95.2	–	–	–	–	95.2	95.2

Carrying amounts and fair values according to classes and measurement categories as at 30 Sep 2016

€ million	**Carrying amount**	Category under IAS 39: At amortised cost	At cost	Fair value with no effect on profit and loss	Fair value through profit and loss	Values according to IAS 17 (leases)	Carrying amount of financial instruments	Fair value of financial instruments
Assets								
Available for sale financial assets	316.2	–	44.4	271.8	–	–	316.2	316.2
Trade receivables and other assets	911.2	689.7	–	–	–	–	689.7	689.7
Derivative financial instruments								
Hedging	539.7	–	–	539.7	–	–	539.7	539.7
Other derivative financial instruments	131.7	–	–	–	131.7	–	131.7	131.7
Cash and cash equivalents	2,072.9	2,072.9	–	–	–	–	2,072.9	2,072.9
Liabilities								
Financial liabilities	2,041.1	809.4	–	–	–	1,231.8	809.4	818.0
Trade payables	2,476.9	2,476.4	–	–	–	–	2,476.4	2,476.4
Derivative financial instruments								
Hedging	219.0	–	–	219.0	–	–	219.0	219.0
Other derivative financial instruments	58.1	–	–	–	58.1	–	58.1	58.1
Other liabilities	731.2	134.2	–	–	–	–	134.2	134.2

The financial investments classified as financial assets available for sale include an amount of € 43.5 m (previous year € 44.4 m) for stakes in partnerships and corporations for which an active market does not exist. The fair value of these non-listed stakes is not determined using a measurement model since the future cash flows cannot be reliably determined. The stakes are carried at acquisition cost. In the reporting period and in the previous year, there were no major disposals of stakes in partnerships and corporations measured at acquisition cost. The TUI Group does not intend to sell or derecognise the stakes in these partnerships and corporations in the near future.

Aggregation according to measurement categories under IAS 39 as at 30 Sep 2017

€ million	At amortised cost	At cost	Fair value with no effect on profit and loss	Fair value through profit and loss	**Carrying amount Total**	Fair value
Loans and receivables	3,261.2	–	–	–	3,261.2	3,261.2
Financial assets						
available for sale	–	43.5	26.0	–	69.5	69.5
held for trading	–	–	–	35.5	35.5	35.5
Financial liabilities						
at amortised cost	3,454.2	–	–	–	3,454.2	3,461.6
held for trading	–	–	–	38.4	38.4	38.4

Aggregation according to measurement categories under IAS 39 as at 30 Sep 2016

€ million	At amortised cost	At cost	Fair value: with no effect on profit and loss	Fair value: through profit and loss	**Carrying amount Total**	Fair value
Loans and receivables	2,762.6	–	–	–	2,762.6	2,762.6
Financial assets						
available for sale	–	44.4	271.8	–	316.2	316.2
held for trading	–	–	–	131.7	131.7	131.7
Financial liabilities						
at amortised cost	3,420.0	–	–	–	3,420.0	3,428.6
held for trading	–	–	–	58.1	58.1	58.1

FAIR VALUE MEASUREMENT

The table below presents the fair values of recurring, non-recurring and other financial instruments measured at fair value in line with the underlying measurement level. The individual measurement levels have been defined as follows in line with the inputs:

- Level 1: (unadjusted) quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs for the measurement other than quoted market prices included within Level 1 that are observable in the market for the asset or liability, either directly (as quoted prices) or indirectly (derivable from quoted prices).
- Level 3: inputs for the measurement of the asset or liability not based on observable market data.

Classification of fair value measurement of financial instruments as of 30 Sep 2017

€ million	**Total**	Fair value hierarchy: Level 1	Level 2	Level 3
Assets				
Available for sale financial assets	26.0	–	20.1	5.9
Derivative financial instruments				
Hedging transactions	259.8	–	259.8	–
Other derivative financial instruments	35.5	–	35.5	–
Liabilities				
Derivative financial instruments				
Hedging transactions	229.2	–	229.2	–
Other derivative financial instruments	38.4	–	38.4	–

Classification of fair value measurement of financial instruments as of 30 September 2016

€ million	Total	Fair value hierarchy Level 1	Level 2	Level 3
Assets				
Available for sale financial assets	271.8	265.8	–	6.0
Derivative financial instruments				
Hedging transactions	539.7	–	539.7	–
Other derivative financial instruments	131.7	–	131.7	–
Liabilities				
Derivative financial instruments				
Hedging transactions	219.0	–	219.0	–
Other derivative financial instruments	58.1	–	58.1	–

At the end of every reporting period, TUI Group checks whether there are any reasons for reclassification to or from one of the measurement levels. Financial assets and financial liabilities are generally transferred out of Level 1 into Level 2 if the liquidity and trading activity no longer indicate an active market. The opposite situation applies to potential transfers out of Level 2 into Level 1. In the reporting period, there were no transfers between Level 1 and Level 2.

Reclassifications from Level 3 to Level 2 or Level 1 are effected if observable market price quotations become available for the asset or liability concerned. TUI Group records transfers to and out of Level 3 as at the date of the obligating event or occasion triggering the transfer. There were no transfers from or to level 3 in the reporting period.

The stake in Hapag-Lloyd AG listed in Level 1 in the financial year 2016 was fully sold on 10 July 2017.

LEVEL 1 FINANCIAL INSTRUMENTS

The fair value of financial instruments for which an active market exists is based on quoted prices at the reporting date. An active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and these prices represent actual and regularly occurring market transactions on an arm's length basis. These financial instruments are classified as Level 1. The fair values correspond to the nominal amounts multiplied by the quoted prices at the reporting date. Level 1 financial instruments primarily comprise shares in listed companies classified as available for sale and bonds issued classified as financial liabilities at amortised cost.

LEVEL 2 FINANCIAL INSTRUMENTS:

The fair values of financial instruments not traded in an active market, e.g. over-the-counter (OTC) derivatives, are determined by means of valuation techniques. These valuation techniques make maximum use of observable market data and minimise the use of Group-specific assumptions. If all essential inputs for the determination of the fair value of an instrument are observable, the instrument is classified as Level 2.

If one or several key inputs are not based on observable market data, the instrument is classified as Level 3.

The following specific valuation techniques are used to measure financial instruments:

- For over-the-counter bonds, liabilities to banks, promissory notes and other non-current financial liabilities, the fair value is determined as the present value of future cash flows, taking account of yield curves and the respective credit spread, which depends on the credit rating
- The fair value of over-the-counter derivatives is determined by means of appropriate calculation methods, e.g. by discounting the expected future cash flows. The forward prices of forward transactions are based on the spot or cash prices, taking account of forward premiums and discounts. The calculation of the fair values of options concluded for currency options is based on the Black & Scholes model and the Turnbull & Wakeman model for optional fuel hedges. The fair values determined on the basis of the Group's own systems are periodically compared with fair value confirmations of the external counterparties.
- Other valuation techniques, e.g. discounting future cash flows, are used to determine the fair values of other financial instruments.

LEVEL 3 FINANCIAL INSTRUMENTS:

The table below presents the fair values of the financial instruments measured at fair value on a recurring basis, classified as Level 3:

Financial assets measured at fair value in level 3

€ million	Available for sale financial assets
Balance as at 1 October 2015	**340.7**
Disposals	
conversion	334.9
Total gains or losses for the period	0.2
recognised througt profit or loss	0.2
recogniseed in other comprehensive income	–
Balance as at 30 September 2016	**6.0**
Balance as at 1 October 2016	**6.0**
Total gains or losses for the period	–0.1
recognised througt profit or loss	–
recognised in other comprehensive income	–0.1
Balance as at 30 September 2017	**5.9**

Further information on Level 3 is not presented for materiality reasons.

EFFECTS ON RESULTS

The effects of the measurement of financial assets available for sale outside profit and loss and the effective portions of changes in fair values of derivatives designated as cash flow hedges are listed in the statement of changes in equity.

The net results of the financial instruments by measurement category according to IAS 39 are as follows:

Net results of financial instruments

€ million	**2017** from interest	**2017** other net results	**2017** net result	2016 from interest	2016 other net results	2016 net result
Loans and receivables	–2.7	332.8	330.1	–6.4	263.1	256.7
Available for sale financial assets	–	173.3	173.3	–	–99.2	–99.2
Financial assets and liabilities held for trading	–2.5	20.0	17.5	–0.6	–9.2	–9.8
Financial liabilities at amortised cost	–22.2	–50.5	–72.7	–44.2	–25.5	–69.7
Total	**–27.4**	**475.6**	**448.2**	**–51.2**	**129.2**	**78.0**

In addition to interest income and interest expenses, the other net result of available-for-sale financial assets mainly consists of the result from participations, capital gains and losses, the effects of the fair value measurement and value adjustments. Details on the sale of the shares in Hapag-Lloyd AG are listed under Note 17.

Financial instruments measured at fair value outside profit and loss did not give rise to any commission expenses in financial year 2017, just as in the previous year.

NETTING

The following financial assets and liabilities are subject to contractual netting arrangements:

Offsetting – financial assets

€ million	Gross Amounts of financial assets	Gross amounts of financial liabilities set off	**Net amounts of financial assets presented in the balance sheet**	Related amounts not set off in the balance sheet: Financial liabilities	Related amounts not set off in the balance sheet: Cash Collateral received	Net Amount
Financial assets as at 30 Sep 17						
Derivative financial assets	295.3	–	295.3	87.5	–	207.8
Cash and cash equivalents	6,222.3	3,706.2	2,516.1	–	–	2,516.1
Financial assets as at 30 Sep 16						
Derivative financial assets	671.4	–	671.4	277.1	–	394.3
Cash and cash equivalents	4,917.8	2,844.9	2,072.9	–	–	2,072.9

Offsetting – financial assets

€ million	Gross Amounts of financial assets	Gross amounts of financial liabilities set off	**Net amounts of financial liabilities presented in the balance sheet**	Related amounts not set off in the balance sheet: Financial assets	Related amounts not set off in the balance sheet: Cash Collateral granted	Net Amount
Financial liabilities as at 30 Sep 17						
Derivative financial liabilities	267.6	–	267.6	87.5	–	180.1
Financial liabilities	5,639.3	3,706.2	1,933.1	–	–	1,933.1
Financial liabilities as at 30 Sep 16						
Derivative financial liabilities	277.1	–	277.1	277.1	–	–
Financial liabilities	4,886.0	2,844.9	2,041.1	–	–	2,041.1

Financial assets and financial liabilities are only netted in the balance sheet if a legally enforceable right to netting exists and the Company intends to settle on a net basis.

The contracts for financial instruments are based on standardised master agreements for financial derivatives (including ISDA Master Agreement, German master agreement for financial derivatives), creating a conditional right to netting contingent on defined future events. Under the contractual agreements all derivatives contracted with the corresponding counterparty with positive or negative fair values are netted in that case, resulting in a net receivable or payable in the amount of the balance. As this conditional right to netting is not enforceable in the course of ordinary business transactions, the derivative financial assets and liabilities are carried at their gross amounts in the balance sheet at the reporting date.

Financial assets and liabilities in the framework of the cash pooling scheme are shown on a net basis if there is a right to netting in ordinary business transactions and the Group intends to settle on a net basis.

(39) Capital risk management

One of the key performance indicators in the framework of capital risk management is the IFRS-based gearing, i.e. the relationship between the Group's net debt and Group equity. From a risk perspective, a balanced relation between net debt and equity is sought.

In order to exert active control over the capital structure, the TUI Group's management may change dividend payments to the shareholders, repay capital to the shareholders, issue new shares or issue hybrid capital. The management may also sell assets in order to reduce Group debt.

Gearing calculation

€ million		**2017**	2016
Average financial debt		2,032.6	2,396.3
Average cash and cash equivalent		1,506.3	1,425.8
Average Group net debt		**526.3**	**970.5**
Average Group equity		3,055.6	2,314.8
Gearing	%	**17.2**	**41.9**

Notes on the cash flow statement

The cash flow statement shows 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 are eliminated. The cash flows are shown for continuing operations and the discontinued operation.

In the reporting period, cash and cash equivalents rose by € 112.5 m to € 2,516.1 m. The item Assets held for sale does not include any cash or cash equivalents.

(40) Cash inflow from operating activities

Based on the Group result after tax, the cash flow from operating activities is derived using the indirect method. In the completed financial year, the cash inflow from operating activities amounted to € 1,583.1 m (previous year € 1,034.7 m).

In the reporting period, the cash inflow included interest of € 17.7 m and dividends of € 121.7 m. Income tax payments resulted in a cash outflow of € 146.1 m. By contrast, tax payments of € 2.5 m on the gains on disposal from the sale of Hotelbeds Group in the prior year were carried under cash outflows from investing activities.

(41) Cash outflow / inflow from investing activities

In financial year 2017, the cash outflow from investing activities totalled € 687.7 m (previous year € 239.0 m inflow). The cash flow from investing activities includes a cash outflow for capital expenditure related to property, plant and equipment and intangible assets of € 1,049.0 m, including € 4.0 m for interest capitalised as borrowing costs. The Group also recorded a cash inflow of € 79.5 m from the sale of property, plant and equipment and intangible assets. The item also includes a cash outflow of € 122.6 m in connection with the acquisition of consolidated companies and the acquisition and capital increase of joint ventures as well as a stake in a technology provider for tourism. The Group recorded a cash inflow of € 11.7 m from the sale of joint ventures in prior years. In the reporting period, the sale of Travelopia Group and the redemption of financial liabilities by the acquirer resulted in a cash inflow after deduction of income tax payments and consultancy costs and after deduction of the cash and cash equivalents of the consolidated companies sold (€ 423.6 m) of € 4.3 m. A part of the expenses (€ – 23.0 m) in connection with the sale of Hotelbeds Group in the prior year were only payable in the current financial year. The sale of another three consolidated and one non-consolidated companies caused a cash inflow of € 5.0 m for TUI Group after deduction of cash and cash equivalents (€ 0.4 m). The Group recorded a cash inflow of € 406.4 m from the sale of shares in Hapag-Lloyd AG in the reporting period.

(42) Cash outflow from financing activities

The cash outflow from financing activities totals € 733.8 m (previous year € 662.1 m). The amounts drawn from the external revolving credit facility to manage the seasonality of the Group's cash flows and liquidity in the completed financial year have meanwhile been fully repaid. In October 2016, TUI AG recorded a cash inflow of € 294.9 m from the issue of a bond. Other TUI Group companies took out further financial liabilities worth € 34.9 m. In September 2014, TUI AG had issued an unsecured bond maturing on 1 October 2019. This bond was cancelled as at 18 November 2016. An amount of € 306.8 m was spent to redeem this bond. A further cash outflow of € 206.6 m related to the redemption of other financial liabilities, including € 97.8 m for finance lease obligations. An amount of € 74.8 m was used for interest payments, while a cash outflow of € 368.2 m related to dividend payments to TUI AG shareholders and a further outflow of € 88.6 m related to dividend payments to minority shareholders. The Employee Benefit Trust of TUI Travel Ltd acquired TUI AG shares worth € 22.3 m to be used for stock option plans. A cash inflow of € 3.7 m related to the issue of employee shares.

(43) Development of cash and cash equivalents

Cash and cash equivalents comprise all liquid funds, i.e. cash in hand, bank balances and cheques.

The change in cash and cash equivalents driven by changes in the group of consolidated companies shows the increase in the Group's cash and cash equivalents triggered by the merger of a previously non-consolidated with a consolidated company.

Other notes

(44) Services of the auditors of the consolidated financial statements

TUI AG's consolidated financial statements have been audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft for the first time in the current year following the election of the auditors effected at the Annual General Meeting of 14 February 2017. Dr Hendrik Nardmann is the auditor in charge. In the prior year and for the review of the interim financial statements as at 31 December 2016, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft had been TUI AG's auditors. Total expenses for the services provided by the auditors of the consolidated financial statements in financial year 2017 are as follows:

Services of the auditors of the consolidated financial statements

€ million	**2017**	2016 restated
Audit fees for TUI AG and subsidiaries in Germany	2.9	3.0
Audit fees	**2.9**	**3.0**
Review of interim financial statements	1.1	2.5
Other audit related services	–	0.1
Other certification and measurement services	**1.1**	**2.6**
Consulting fees	–	0.7
Tax advisor services	0.1	0.2
Other services	**0.1**	**0.9**
Total	**4.1**	**6.5**

(45) Remuneration of Executive and Supervisory Board members acc. to § 314 HGB

In the completed financial year, the remuneration paid to Executive Board members totalled € 3,794.7 thousand (previous year € 4,720.6 thousand).

Pension payments for former Executive Board members or their surviving dependants totalled € 13,497.1 thousand (previous year € 4,933.2 thousand) in the completed financial year. Pension obligations for former Executive Board members and their surviving dependants amounted to € 64,683.5 thousand (previous year € 78,976.5 thousand) at the balance sheet date.

Disclosures of the relevant amounts for individual Board members and further details on the remuneration system are provided in the Remuneration Report included in the Management Report.

(46) Use of exemption provision

The following German subsidiaries fully included in consolidation made use of the exemption provision in accordance with section 264 (3) of the German Commercial Code (HGB):

Use of exemption provisions

Atraveo GmbH, Düsseldorf	TUI 4 U GmbH, Bremen
Berge & Meer Touristik GmbH, Rengsdorf	TUI aqtiv GmbH, Hanover
DEFAG Beteiligungsverwaltungs GmbH I, Hanover	TUI Aviation GmbH, Hanover
DEFAG Beteiligungsverwaltungs GmbH III, Hanover	TUI Beteiligungs GmbH, Hanover
FOX-TOURS Reisen GmbH, Rengsdorf	TUI Business Services GmbH, Hanover
Hapag-Lloyd Executive GmbH, Langenhagen	TUI Customer Operations GmbH, Hanover
Hapag-Lloyd Kreuzfahrten GmbH, Hamburg	TUI Deutschland GmbH, Hanover
Last-Minute-Restplatzreisen GmbH, Baden-Baden	TUI Group Services GmbH, Hanover
Leibniz Service GmbH, Hanover	TUI-Hapag Beteiligungs GmbH, Hanover
L'tur tourismus Aktiengesellschaft, Baden-Baden	TUI Hotel Betriebsgesellschaft mbH, Hanover
MEDICO Flugreisen GmbH, Baden-Baden	TUI Immobilien Services GmbH, Hanover
MSN 1359 GmbH, Hanover	TUI InfoTec GmbH, Hanover
Preussag Beteiligungsverwaltungs GmbH IX, Hanover	TUI Leisure Travel Service GmbH, Neuss
ProTel Gesellschaft für Kommunikation mbH, Rengsdorf	TUI Magic Life GmbH, Hanover
Robinson Club GmbH, Hanover	TUIfly GmbH, Langenhagen
TCV Touristik-Computerverwaltungs GmbH, Baden-Baden	TUIfly Vermarktungs GmbH, Hanover
TICS GmbH Touristische Internet und Call Center Services, Baden-Baden	Wolters Reisen GmbH, Stuhr

(47) Related parties

Apart from the subsidiaries included in the consolidated financial statements, TUI AG, in carrying out its ordinary business activities, maintains 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 shown in the list of shareholdings published in the Federal Gazette (www.bundesanzeiger.de). Apart from pure equity investments, related parties also include companies that supply goods or provide services for TUI Group companies.

Financial obligations from order commitments vis-à-vis related parties primarily relate to the purchasing of hotel services. TUI Group also has obligations of €613.2 m (previous year €613.2 m) from order commitments vis-à-vis the related company TUI Cruises, resulting from finance leases for cruise ships. In addition, there are obligations of €56.2 m (previous year €8.4 m) from rental and lease agreements.

Transactions with related parties

€ million	2017	2016
Services provided by the Group		
Management and consultancy services	104.2	93.2
Sales of tourism services	79.2	62.2
Other services	0.7	1.3
Total	**184.1**	**156.7**
Services received by the Group		
In the framework of rental and leasing agreements	46.6	33.2
Purchase of hotel services	253.1	224.8
Distribution services	8.0	8.8
Other services	11.3	9.0
Total	**319.0**	**275.8**

Transactions with related parties

€ million	2017	2016
Services provided by the Group to		
non-consolidated Group companies	0.7	0.5
joint ventures	92.0	72.9
associates	28.8	29.7
other related parties	62.6	53.6
Total	**184.1**	**156.7**
Services received by the Group from		
non-consolidated Group companies	6.6	6.1
joint ventures	264.2	224.1
associates	34.5	34.3
other related parties	13.7	11.3
Total	**319.0**	**275.8**

Transactions with joint ventures and associates are primarily effected in the Tourism segment. They relate in particular to the tourism services of the hotel companies used by the Group's tour operators.

All transactions with related parties were executed on an arm's length basis, applying international comparable uncontrolled price methods in accordance with IAS 24.

Receivables against related parties

€ million	30 Sep 2017	30 Sep 2016
Trade receivables from		
non-consolidated Group companies	2.2	1.7
joint ventures	18.8	10.4
associates	4.9	3.9
other related parties	0.3	0.5
Total	**26.2**	**16.5**
Advances and loans to		
non-consolidated Group companies	0.3	17.8
joint ventures	4.2	3.2
associates	6.8	5.6
Total	**11.3**	**26.6**
Payments on account to		
joint ventures	21.2	0.4
Total	**21.2**	**0.4**
Other receivables from		
non-consolidated Group companies	1.5	1.6
joint ventures	3.8	3.3
associates	1.6	2.9
Total	**6.9**	**7.8**

Payables due to related parties

€ million	30 Sep 2017	30 Sep 2016
Trade payables due to		
non-consolidated Group companies	–	1.0
joint ventures	36.2	23.0
associates	4.1	2.5
other related parties	0.1	0.1
Total	**40.4**	**26.6**
Financial liabilities due to		
non-consolidated Group companies	6.7	6.6
joint ventures	175.7	192.1
Total	**182.4**	**198.7**
Other liabilities due to		
non-consolidated Group companies	5.7	7.5
joint ventures	13.7	13.5
associates	1.9	5.6
key management personnel	7.9	8.5
Total	**29.2**	**35.1**

Liabilities to joint ventures included liabilities from finance leases of € 168.4 m (previous year € 184.1 m).

The share of result of associates and joint ventures is shown separately by segment in segment reporting.

The Russian entrepreneur Alexey Mordashov, CEO of OOO Severgroup, has been a member of TUI AG's Supervisory Board since February 2016 and held 23.0 % of the shares in TUI AG as at the balance sheet date.

At the balance sheet date, the joint venture Riu Hotels S.A. holds 3.4 % of the shares in TUI AG. Luis Riu Güell and Carmen Riu Güell (a member of TUI AG's Supervisory Board) hold 51 % of the shares in Riu Hotels S.A.

A family member of a Supervisory Board member was employed by TUI. Remuneration corresponded to TUI's internal remuneration policies and was in line with the customary remuneration for persons in comparable positions.

In accordance with IAS 24, key management functions within the Group, the Executive Board and the Supervisory Board are related parties whose remuneration has to be listed separately.

Remuneration of Executive and Supervisory Board

€ million	**2017**	2016
Short-term benefits	13.5	14.4
Post-employment benefits	1.5	3.0
Other long-term benefits (share-based payments)	3.5	8.6
Termination benefits	–	6.6
Total	**18.5**	**32.6**

Post-employment benefits are transfers to or reversals of pension provisions for Executive Board members active in the reporting period. The expenses mentioned do not meet the definition of remuneration for Executive and Supervisory Board members under German accounting rules.

Pension provisions for active Executive Board members total € 19.7 m (previous year € 19.1 m) as at the balance sheet date.

In addition, provisions and payables of € 10.2 m (previous year € 8.6 m) are recognised relating to the long-term incentive programme.

(48) International Financial Reporting Standards (IFRS) not yet applied

New standards endorsed by the EU, but applicable after 30 Sep 2017

Standard	Applicable from	Amendments	Expected impact on financial position & performance
Amendments to IAS 7 Disclosure Initiative	1 Jan 2017	The amendments will enable users of financial statements to better evaluate changes in liabilities arising from financing activities. An entity is required to disclose additional information about cash flows and non-cash changes in liabilities, for which cashflows are classified as financing activities in the statement of cashflows.	TUI expects the amendments to result in additional disclosures.
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 Jan 2017	The amendment clarifies the accounting of deferred tax assets for unrealised losses from available for sale financial assets.	Not material
IFRS 9 Financial Instruments	1 Jan 2018	The new standard replaces current the IAS 39 guidance on classification and measurement of financial assets and introduces new rules for hedge accounting. The existing impairment rules are being superseded by a new model based on expected credit losses.	TUI is currently assessing the effects on the Group's financial position & performance. The likely effects are explained below.
IFRS 15 Revenue from Contracts with Customers	1 Jan 2018	IFRS 15 combines and supersedes the guidance on revenue recognition comprised in various standards and interpretations so far. It establishes a single, comprehensive framework for revenue recognition, to be applied across industries and for all categories of revenue transactions, specifying which amount of revenue and at which point in time or over which time period revenue is to be recognised. IFRS 15 replaces, amongst others, IAS 18 Revenue and IAS 11 Construction Contracts.	IFRS 15 and the clarifications to IFRS 15 may significantly affect the Group's financial position & performance. The possible effects are explained below.
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 Jan 2018	The amendments comprise clarifications of the guidance on identifying performance obligations, the principal versus agent assessment (i.e., gross vs. net revenue presentation) as well as the accounting for revenue from licences at a 'point in time' or 'over time'. In addition, it introduces practical expedients to simplify first-time adoption.	IFRS 15 and the clarifications to IFRS 15 may significantly affect the Group's financial position & performance. The possible effects are explained below.
IFRS 16 Leases	1 Jan 2019	IFRS 16 replaces the current IAS 17 and its interpretations. For lessees, there is no longer the requirement to classify into finance and operating leases. Instead all leases are accounted for according to the so-called 'Rights of Use' approach. In the statement of financial position a lessee is to recognise an asset for the right to use the leased item and a liability for the future lease payments. There are optional exemptions for short-term leases (< 12 months) and so-called small-ticket leases. For lessors, the accounting stays largely unchanged. Lessors will continue to classify leases in accordance with the criteria transfered from IAS 17. In addition, IFRS 16 includes several other new requirements, in particular a new definition of a lease, on sale and leaseback transactions and the accounting for subleases.	The new standard will have significant effects on the Group's financial position & Group's financial position & performance. The likely effects are explained below.

IFRS 15

The Group-wide project to analyse the effects and the implementation of IFRS 15 'Revenue From Contracts with Customers' has not yet been completed. Within the scope of the project the contracts with customers within the businesses are being analysed using the five step model in IFRS 15. In order to determine the adjustments on transition and gather the information needed to collate the new disclosures data extracts were made from the relevant reservation-, booking- and accounting systems as per the year-end date. The evaluation and analysis of those data extracts has not been completed yet. A reliable quantification of the effects on TUI's financial position and performance is therefore not yet possible. The new requirements will generally influence the following facts and circumstances, depending on the specific case:

- Revenue recognition at the tour operator: Depending on the specific contract terms, the tour operation business currently primarily recognises revenue as at the start date of a journey. The new rules will result in period-related revenue recognition for some business models.
- Change fees: Revenue from rebooking travel services will no longer be recognised when the change service occurs. Instead such fees will be recognised as a contract liability and recognised at the point in time or over time when the service is provided.
- Travel agency commission: The assessment of the question whether the Group's own travel agencies should recognise commissions earned at an earlier point in time is currently expected to not result in changes.
- Principal vs. agent: In assessing whether TUI provides services on its own account (gross revenue) or on behalf of a third party (net revenue), the new criteria will result in net revenue recognition in some tour operating business models.
- Disclosures in the notes: The new requirements will result in a substantial extension of the qualitative and quantitative disclosures.

In addition the further analysis, in particular of IT systems, to implement IFRS 15 within the accounting related processes and systems is ongoing. Building up on the results of thereof, the decision about the transition method on first-time application of IFRS 15 will be made. TUI will first apply the new standard from 1 October 2018.

IFRS 9

In a Group-wide project, TUI is assessing the impact of the application of IFRS 9 Financial Instruments on the Group's consolidated financial statements. We currently expect the following effects:

- There will be no significant impact on measurement base resulting from the reclassification of financial assets based on the business model for managing those financial assets and the related contractual cash flows. The financial assets currently carried at amortised cost satisfy the conditions for classification at amortised cost under IFRS 9.
- For the equity instruments currently classified as financial assets available for sale, an election to classify as at fair value through other comprehensive income option (FVTOCI) is available.
- Due to the transition from the incurred loss model to the new expected loss model impairment charges will have to be recognised in profit or loss earlier in the future. For the majority of its financial assets, TUI is able to use the simplified model, in which all expected losses are considered at initial recognition.
- Recognition of financial liabilities will not be affected. The new rules only relate to the recognition of financial liabilities for which the fair value option is elected. The Group does not make use of that option.
- The new hedge accounting requirements will give TUI the opportunity to align the accounting for hedge relationships even more closely with the Group's economic risk management. While the Group has yet to carry out a detailed assessment of the existing hedging relationship as at the transition date, it appears as if the current hedge relationships qualify as continuing hedge relationships upon the first-time application of IFRS 9. TUI therefore expects no impact on the accounting for hedge relationships. Subject to the adaption of our treasury management systems being completed in time, we intend to not make use of the choice offered on transition to IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

A reliable estimate of the quantitative impact is not yet possible at this stage. The initial application of IFRS 9 from 1 October 2018 will be done retrospectivel, except for the new hedge accounting requirements which are to be applied prospectively. The reclassification of the carrying amounts and loss allowances on transition from IAS 39 to IFRS 9 are to be presented in a reconciliation. TUI intends to make use of the election to not restate the prior year comparatives on transition.

Contrary to this the new hedge accounting requirements need to be applied prospectively as a matter of principle. Notwithstanding this principle, according to the transition requirements TUI will need to apply the requirements retrospectively regarding the accounting for the time value of options, where the inner value was designated to be the hedging instrument, when the hedge relationship existed on 1 October 2017 or during financial year 2018.

IFRS 16

IFRS 16, in particular its new lessee accounting requirements, will have a significant impact on all parts of the consolidated financial statements and the presentation of the Group's financial position and performance:

- Statement of financial position: This far, payments for operating leases had to be disclosed in the notes only. In the future, in principle rights and obligations arising from all leases must be recognised as rights of use and lease liabilities in the statement of financial position. The right of use asset is initially recognised at the present value of future lease payments plus initial direct costs and is subsequently depreciated over the lease term. The lease liability is initially measured at the present value of the lease payments to be made during the term of the lease. Following initial recognition, the carrying amount will be increased for the effective interest and reduced by the payments made. Due to the existing obligations from operating leases presented in note 36, TUI expects a material increase in lease liabilities and fixed assets as at the date of first application. The equity ratio will decline as a result of this balance sheet extension. The material increase in lease liabilities will cause a corresponding increase in net financial liabilities.
- Income Statement: In future, a lessee will recognise depreciation expense on the right of use assets and interest expenses from unwinding the discount on lease liabilities instead of lease expenses. This change will result in a significant improvement in key performance indicators EBITDA or EBITA and a moderate improvement in EBIT.
- Cashflow statement: The payments that represent repayment of principal or interest portion of a lease liability will be included in cashflows from financing activities. Only such payments under leases that are either excluded from the measurement of the lease liability or, where TUI makes use of the respective exemptions, for short-term leases and small-ticket leases will be allocated to cashflows from operating activities. This change in presentation in comparison to current recognition of operating lease expenses will result in an increase in cashflows from operating activities and a decrease in cashflows from financing activities.
- Notes: The new requirements will result in expanded disclosures for lessees and lessors in comparison to IAS 17.

TUI has launched a Group-wide project to assess the impact and to implement the new requirements. A reliable estimate of their quantitative effects is not possible, primarily due to the large number of external and internal leases, prior to completion of the ongoing impact assessment and decisions about the use of recognition and measurement choices.

TUI intends to apply the new requirements modified retrospectively and effective 1 October 2019. The Group has a choice to make use of several practical expedients on transition, and no decisions have yet been taken on how to exercise these. Upon first-time application, the cumulative adjustment on transition will be recognised in equity. The prior year comparatives for financial year 2019, which precedes the date of first-time application, will not be restated.

No decision has yet been taken by the European Union about recognition of the following changes and new standards.

New standards and interpretations not yet endorsed by the EU and applicable after 30 Sep 2017

Standard	Applicable from	Amendments	Expected impact on financial position & performance
Amendments to IFRS 2 Classification and Measurement of Share-based Payment transactions	1 Jan 2018	The amendments clarify the accounting for certain share based payment transactions.	Not material
Amendments to IAS 40 Transfer of Investment Property	1 Jan 2018	The amendments set out the conditions, according to which property under construction or development, which was previously classified as inventory, could be transferred to investment property in case of an evident change in use (and reversal).	Not material
Various Improvements to IFRS (2014 – 2016)	1.1.2017 (IFRS 12) and 1.1.2018 (IAS 28)	The various amendments from the annual improvement project 2014 – 2016 affect minor changes to IFRS 12, IAS 28 and IFRS 1. The effective date for the mandatory adoption of the amendments to IAS 28 and IFRS 1 is 1.1.2018. Voluntary early adoption is permitted.	Not material
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 Jan 2018	The interpretation clarifies the exchange rate to be used when an entity has received or paid advance consideration in a foreign currency. The date of transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which the entity initally recognises the advance consideration.	No impact as the current accounting is in line with the new interpretation.
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 Jan 2019	The amendments clarify that the impairment rules of IFRS 9 apply to long-term interests in associates and joint ventures that, in substance, form part of the net investment in the associate or joint venture to which the equity method is applied. Nevertheless, (as a second step) these long-term interests will have to be taken into account when the IAS 28 loss allocations are trued-up to the value of the long-term interests.	TUI is currently reviewing the amendments and does not expect any material impacts.
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 Jan 2019	The amendments serve to enable entities applying IFRS 9 that hold debt instruments with a prepayment feature under which a party receives or pays a reasonable compensation in the event of early termination of the contract to measure these instruments at amortised cost or at fair value through other comprehensive income. Until the effective date of the amendments, such instruments have to be measured at fair value through profit or loss.	TUI is reviewing the amendments and currently does not expect any material impacts.
IFRIC 23 Uncertainty over Income Tax Treatments	1 Jan 2019	The interpretation complements the rules of IAS 12 on the accounting for actual and deferred taxes to clarify the accounting for uncertainties over income tax treatments and transactions by taxation authorities or fiscal courts.	TUI will review the impacts of the interpretation on the consolidated financial statements in due time. We currently do not expect any material impacts.

TUI is not affected by the Amendments to IFRS 4 'Applying IFRS 9 with IFRS 4' published on 12 September 2016 and adopted into European law on 3 November 2017 for first-time application from 1 January 2021, nor by the new IFRS 17 – 'Insurance Contracts' published by the IASB on 18 May 2017.

(49) TUI Group Shareholdings

Company	Country	Capital share in %
Consolidated companies		
Tourism		
"MAGIC LIFE" Assets AG, Vienna	Austria	100
Absolut Holding Limited, Luqa	Malta	99.9
Adehy Limited, Dublin	Ireland	100
Advent Insurance PCC Limited, Qormi	Malta	100
Aeolos Malta Ltd., Pieta	Malta	100
Aeolos Travel LLP, Nicosia	Cyprus	100
AMP Management Limited, Crawley	United Kingdom	100
Anse Marcel Riusa II SNC, Paris	France	100
Arccac Eurl, Bourg St. Maurice	France	100
atraveo GmbH, Düsseldorf	Germany	100
Berge & Meer Touristik GmbH, Rengsdorf	Germany	100
Boomerang-Reisen GmbH, Trier	Germany	100
Boomerang-Reisen Vermögensverwaltungs GmbH, Trier	Germany	75
Brunalp SARL, Venosc	France	100
BU RIUSA II EOOD, Sofia	Bulgaria	100
Cabotel-Hoteleria e Turismo Lda., Santiago	Cape Verde	100
Callers-Pegasus Pension Trustee Limited, Crawley	United Kingdom	100
Club Hotel CV SA, Santa Maria	Cape Verde	100
Club Hôtel Management Tunisia SARL, Djerba	Tunisia	100
Corsair S.A., Rungis	France	100
Crystal Holidays, Inc, Wilmington (Delaware)	United States	100
Daidalos Hotel- und Touristikunternehmen A.E., Athens	Greece	89.8
Dominicanotel S.A., Puerto Plata	Dominican Republic	100
Egyptian Germany Co. for Hotels (L.T.D), Cairo	Egypt	66.6
Elena SL, Palma de Mallorca	Spain	100
Entreprises Hotelières et Touristiques PALADIEN Lena Mary A.E., Argolis	Greece	100
Europa 2 Ltd, Valletta	Malta	100
Explorers Travel Club Limited, Crawley	United Kingdom	100
Falcon Leisure Group (Overseas) Limited, Crawley	United Kingdom	100
First Choice (Turkey) Limited, Crawley	United Kingdom	100
First Choice Airways Limited, London	United Kingdom	100
First Choice Holiday Hypermarkets Limited, Crawley	United Kingdom	100
First Choice Holidays & Flights Limited, Crawley	United Kingdom	100
First Choice Land (Ireland) Limited, Dublin	Ireland	100
First Choice Travel Shops (SW) Limited, Crawley	United Kingdom	100
First Choice Travel Shops Limited, Crawley	United Kingdom	100
Follow Coordinate Hotels Portugal Unipessoal Lda, Albufeira Freguesia	Portugal	100
FOX-TOURS Reisen GmbH, Rengsdorf	Germany	100
Fritidsresor Tours & Travels India Pvt Ltd, Bardez, Goa	India	100
GEAFOND Número Dos Fuerteventura S.A., Las Palmas, Gran Canaria	Spain	100
GEAFOND Número Uno Lanzarote S.A., Las Palmas, Gran Canaria	Spain	100
Groupement Touristique International S.A.S., Lille	France	100
Hannibal Tour SA, Tunis	Tunisia	100
Hapag-Lloyd (Bahamas) Ltd., Nassau	Bahamas	100
Hapag-Lloyd Kreuzfahrten GmbH, Hamburg	Germany	100
Hellenic EFS Hotel Management E.P.E., Athens	Greece	100
Holiday Center S.A., Cala Serena / Cala d'Or	Spain	100
Holidays Services S.A., Agadir	Morocco	100

Company	Country	Capital share in %
Horizon Midlands (Properties) Limited, Crawley	United Kingdom	100
Iberotel International A.S., Antalya	Turkey	100
Iberotel Otelcilik A.S., Istanbul	Turkey	100
Imperial Cruising Company SARL, Heliopolis-Cairo	Egypt	90
Inter Hotel SARL, Tunis	Tunisia	100
Itaria Limited, Nicosia	Cyprus	100
Jandia Playa S.A., Morro Jable / Fuerteventura	Spain	100
Jetair Real Estate N.V., Brussels	Belgium	100
JNB (Bristol) Limited, Crawley	United Kingdom	100
Kras B.V., Ammerzoden	Netherlands	100
Label Tour EURL, Levallois Perret	France	100
Lapter Eurl, Macot La Plagne	France	100
Last-Minute-Restplatzreisen GmbH, Baden-Baden	Germany	100
Lodges & Mountain Hotels SARL, Notre Dame de Bellecombe, Savoie	France	100
L'TUR Suisse AG, Dübendorf / ZH	Switzerland	99.5
l'tur tourismus Aktiengesellschaft, Baden-Baden	Germany	100
Lunn Poly Limited, Crawley	United Kingdom	100
Magic Hotels SA, Tunis	Tunisia	100
Magic Life Egypt for Hotels LLC, Sharm el Sheikh	Egypt	100
Magic Life Greece Tourist Enterprises E.P.E., Athens	Greece	100
Magic Tourism International S.A., Tunis	Tunisia	100
Medico Flugreisen GmbH, Baden-Baden	Germany	100
Morvik EURL, Bourg Saint Maurice	France	100
MX RIUSA II S.A. de C.V., Cabo San Lucas	Mexico	100
Nazar Nordic AB, Malmö	Sweden	100
Nordotel S.A., San Bartolomé de Tirajana	Spain	100
Nouvelles Frontières Senegal S.R.L., Dakar	Senegal	100
Ocean College LLC, Sharm el Sheikh	Egypt	100
Ocean Ventures for Hotels and Tourism Services SAE, Sharm el Sheikh	Egypt	98
Orion Airways Limited, Crawley	United Kingdom	100
PATS N.V., Oostende	Belgium	100
Petit Palais Srl, Valtournenche	Italy	100
Preussag Beteiligungsverwaltungs GmbH IX, Hanover	Germany	100
Professor Kohts Vei 108 AS, Stabekk	Norway	100
PRomeociones y Edificaciones Chiclana S.A., Palma de Mallorca	Spain	100
ProTel Gesellschaft für Kommunikation mbH, Rengsdorf	Germany	100
Puerto Plata Caribe Beach S.A., Puerto Plata	Dominican Republic	100
RC Clubhotel Cyprus Limited, Limassol	Cyprus	100
RCHM S.A.S., Agadir	Morocco	100
Rideway Investment Limited, London	United Kingdom	100
Riu Jamaicotel Ltd., Negril	Jamaica	100
Riu Le Morne Ltd, Port Louis	Mauritius	100
RIUSA II S.A., Palma de Mallorca	Spain	50*
RIUSA NED B.V., Amsterdam	Netherlands	100
ROBINSON AUSTRIA Clubhotel GmbH, Villach-Landskron	Austria	100
Robinson Club GmbH, Hanover	Germany	100
Robinson Club Italia S.p.A., Marina di Ugento	Italy	100
Robinson Club Maldives Private Limited, Malé	Maldives	100
Robinson Clubhotel Turizm Ltd. Sti., Istanbul	Turkey	100
Robinson Hoteles España S.A., Cala d'Or	Spain	100
Robinson Hotels Portugal S.A., Vila Nova de Cacela	Portugal	67
Robinson Otelcilik A.S., Istanbul	Turkey	100
Saint Martin RIUSA II SAS, Basse Terre	France	100

* Controlling influence

Company	Country	Capital share in %
SERAC Travel GmbH, Zermatt	Switzerland	100
Skymead Leasing Limited, Crawley	United Kingdom	100
Société d'Exploitation du Paladien Marrakech SA, Marrakech	Morocco	100
Société d'Investissement Aérien S.A., Casablanca	Morocco	100
Société d'Investissement et d'Exploration du Paladien de Calcatoggio (SIEPAC), Montreuil	France	100
Société d'investissement hotelier Almoravides S.A., Marrakech	Morocco	100
Société Marocaine pour le Developpement des Transports Touristiques S.A., Agadir	Morocco	100
Sons of South Sinai for Tourism Services and Supplies SAE, Sharm el Sheikh	Egypt	84.1
Specialist Holidays Group Limited, Crawley	United Kingdom	100
Specialist Holidays, Inc., Mississauga, Ontario	Canada	100
Star Tour Holding A/S, Copenhagen	Denmark	100
Stella Polaris Creta A.E., Heraklion	Greece	100
STIVA RII Ltd., Dublin	Ireland	100
Sunshine Cruises Limited, Crawley	United Kingdom	100
Tantur Turizm Seyahat A.S., Istanbul	Turkey	100
TCV Touristik-Computerverwaltungs GmbH, Baden-Baden	Germany	100
TdC Agricoltura Società agricola a r.l., Florence	Italy	100
TdC Amministrazione S.r.l., Florence	Italy	100
Tec4Jets B.V., Rijswijk ZH	Netherlands	100
Tec4Jets NV, Oostende	Belgium	100
Tenuta di Castelfalfi S.p.A., Florence	Italy	100
Thomson Airways Limited, Crawley	United Kingdom	100
Thomson Reisen GmbH, St. Johann	Austria	100
Thomson Services Limited, St. Peter Port	Guernsey	100
Thomson Travel Group (Holdings) Limited, Crawley	United Kingdom	100
TICS GmbH Touristische Internet und Call Center Services, Baden-Baden	Germany	100
Tigdiv Eurl, Tignes	France	100
TLT Reisebüro GmbH, Hanover	Germany	100
Transfar - Agencia de Viagens e Turismo Lda., Faro	Portugal	100
Travel Choice Limited, Crawley	United Kingdom	100
travel-Ba.Sys GmbH & Co KG, Mülheim an der Ruhr	Germany	83.5
Tropical Places Limited, Crawley	United Kingdom	100
TT Hotels Italia S.R.L., Rome	Italy	100
TT Hotels Turkey Otel Hizmetleri Turizm ve ticaret AS, Antalya	Turkey	100
TUI (Cyprus) Limited, Nicosia	Cyprus	100
TUI (Suisse) AG, Zurich	Switzerland	100
TUI 4 U GmbH, Bremen	Germany	100
TUI Airlines Belgium N.V., Oostende	Belgium	100
TUI Airlines Nederland B.V., Rijswijk	Netherlands	100
TUI Airways Limited, Crawley	United Kingdom	100
TUI aqtiv GmbH, Hanover	Germany	100
TUI Austria Holding GmbH, Vienna	Austria	100
TUI Belgium NV, Oostende	Belgium	100
TUI Belgium Retail N.V., Zaventem	Belgium	100
TUI BLUE AT GmbH, Bad Erlach	Austria	100
TUI Bulgaria EOOD, Varna	Bulgaria	100
TUI Curaçao N.V., Curaçao	Country of Curaçao	100
TUI Customer Operations GmbH, Hanover	Germany	100
TUI Danmark A/S, Copenhagen	Denmark	100

Company	Country	Capital share in %
TUI Denmark Holding A/S, Copenhagen	Denmark	100
TUI Deutschland GmbH, Hanover	Germany	100
TUI Dominicana SAS, Higuey	Dominican Republic	100
TUI DS USA, Inc, Wilmington (Delaware)	United States	100
TUI España Turismo SL, Barcelona	Spain	100
TUI Finland Oy Ab, Helsinki	Finland	100
TUI France SAS, Nanterre	France	100
TUI Hellas Travel Tourism and Airline A.E., Athens	Greece	100
TUI Holding Spain S.L., Barcelona	Spain	100
TUI Hotel Betriebsgesellschaft mbH, Hanover	Germany	100
TUI InfoTec GmbH, Hanover	Germany	100
TUI Leisure Travel Special Tours GmbH, Hanover	Germany	100
TUI Magic Life GmbH, Hanover	Germany	100
TUI Mexicana SA de CV, Mexico	Mexico	100
TUI Nederland Holding N.V., Rijswijk	Netherlands	100
TUI Nederland N.V., Rijswijk	Netherlands	100
TUI Nordic Holding AB, Stockholm	Sweden	100
TUI Norge AS, Stabekk	Norway	100
TUI Northern Europe Limited, Crawley	United Kingdom	100
TUI Norway Holding AS, Stabekk	Norway	100
TUI Österreich GmbH, Vienna	Austria	100
TUI Pension Scheme (UK) Limited, Crawley	United Kingdom	100
TUI Poland Dystrybucja Sp. z o.o., Warsaw	Poland	100
TUI Poland Sp. z o.o., Warsaw	Poland	100
TUI PORTUGAL - Agencia de Viagens e Turismo S.A., Faro	Portugal	100
TUI Reisecenter Austria Business Travel GmbH, Vienna	Austria	74.9
TUI Service AG, Altendorf	Switzerland	100
TUI Suisse Retail AG, Zurich	Switzerland	100
TUI Sverige AB, Stockholm	Sweden	100
TUI Travel (Ireland) Limited, Dublin	Ireland	100
TUI Travel Distribution N.V., Oostende	Belgium	100
TUI Travel Group Solutions Limited, Crawley	United Kingdom	100
TUI Travel Holdings Sweden AB, Stockholm	Sweden	100
TUI UK Italia Srl, Turin	Italy	100
TUI UK Limited, Crawley	United Kingdom	100
TUI UK Retail Limited, Crawley	United Kingdom	100
TUI UK Transport Limited, Crawley	United Kingdom	100
TUIfly GmbH, Langenhagen	Germany	100
TUIfly Nordic AB, Stockholm	Sweden	100
TUIfly Vermarktungs GmbH, Hanover	Germany	100
Tunisie Investment Services Holding S.A., Tunis	Tunisia	100
Tunisie Voyages S.A., Tunis	Tunisia	100
Tunisotel S.A.R.L., Tunis	Tunisia	100
Turcotel Turizm A.S., Istanbul	Turkey	100
Turkuaz Insaat Turizm A.S., Ankara	Turkey	100
Ultramar Express Transport S.A., Palma de Mallorca	Spain	100
Wolters Reisen GmbH, Stuhr	Germany	100
WonderCruises AB, Stockholm	Sweden	100
WonderHolding AB, Stockholm	Sweden	100
Xidias Coaches Limited, Larnaca	Cyprus	51
All other segments		
Absolut Insurance Limited, St. Peter Port	Guernsey	100

Company	Country	Capital share in %
Asiarooms Pte Ltd, Singapore	Singapore	100
B.D.S Destination Services Tours, Cairo	Egypt	100
Canada Maritime Services Limited, Crawley	United Kingdom	100
Canadian Pacific (UK) Limited, Crawley	United Kingdom	100
Cast Agencies Europe Limited, Crawley	United Kingdom	100
Cheqqer B.V., Rijswijk	Netherlands	100
CP Ships (Bermuda) Ltd., Hamilton	Bermuda	100
CP Ships (UK) Limited, Crawley	United Kingdom	100
CP Ships Ltd., Saint John	Canada	100
DEFAG Beteiligungsverwaltungs GmbH I, Hanover	Germany	100
DEFAG Beteiligungsverwaltungs GmbH III, Hanover	Germany	100
First Choice Holidays Finance Limited, Crawley	United Kingdom	100
First Choice Holidays Limited, Crawley	United Kingdom	100
First Choice Leisure Limited, Crawley	United Kingdom	100
First Choice Olympic Limited, Crawley	United Kingdom	100
First Choice Overseas Holdings Limited, Crawley	United Kingdom	100
First Choice USA, Crawley	United Kingdom	100
Hapag-Lloyd Executive GmbH, Langenhagen	Germany	100
I Viaggi del Turchese S.r.l., Fidenza	Italy	100
Jetset Group Holding (Brazil) Limited, Crawley	United Kingdom	100
Jetset Group Holding (UK) Limited, Crawley	United Kingdom	100
Jetset Group Holding Limited, Crawley	United Kingdom	100
Leibniz-Service GmbH, Hanover	Germany	100
Mala Pronta Viagens e Turismo Ltda., Curitiba	Brazil	100
Manufacturer's Serialnumber 852 Limited, Dublin	Ireland	100
MSN 1359 GmbH, Hanover	Germany	100
Paradise Hotels Management Company LLC, Cairo	Egypt	100
PM Peiner Maschinen GmbH, Hanover	Germany	100
Sovereign Tour Operations Limited, Crawley	United Kingdom	100
Thomson Airways Trustee Limited, Crawley	United Kingdom	100
TUI Ambassador Tours Unipessoal Lda, Lisbon	Portugal	100
TUI Aviation GmbH, Hanover	Germany	100
TUI Beteiligungs GmbH, Hanover	Germany	100
TUI Brasil Operadora e Agencia de Viagens LTDA, Curitiba	Brazil	100
TUI Business Services GmbH, Hanover	Germany	100
TUI Canada Holdings, Inc, Toronto	Canada	100
TUI Chile Operador y Agencia de Viajes SpA, Santiago	Chile	100
TUI China Travel CO. Ltd., Peking	China	75
TUI Colombia Operadora y Agencia de Viajes SAS, Bogota	Colombia	100
TUI Group Fleet Finance Limited, Luton	United Kingdom	100
TUI Group Services GmbH, Hanover	Germany	100
TUI Group UK Healthcare Limited, Crawley	United Kingdom	100
TUI Group UK Trustee Limited, Crawley	United Kingdom	100
TUI Immobilien Services GmbH, Hanover	Germany	100
TUI India Private Limited, New Delhi	India	100
TUI Leisure Travel Service GmbH, Neuss	Germany	100
TUI LTE Viajes S.A de C.V, Mexico City	Mexico	100
TUI Spain, SLU, Madrid	Spain	100
TUI Travel Amber E&W LLP, Crawley	United Kingdom	100
TUI Travel Amber Limited, Edinburgh	United Kingdom	100
TUI Travel Aviation Finance Limited, Crawley	United Kingdom	100
TUI Travel Common Investment Fund Trustee Limited, Crawley	United Kingdom	100
TUI Travel Group Management Services Limited, Crawley	United Kingdom	100

Company	Country	Capital share in %
TUI Travel Holdings Limited, Crawley	United Kingdom	100
TUI Travel Limited, Crawley	United Kingdom	100
TUI Travel Nominee Limited, Crawley	United Kingdom	100
TUI Travel Overseas Holdings Limited, Crawley	United Kingdom	100
TUI-Hapag Beteiligungs GmbH, Hanover	Germany	100
Non-consolidated Group companies		
Tourism		
"Schwerin Plus" Touristik-Service GmbH, Schwerin	Germany	80
Aeolos Limited, Nicosia	Cyprus	100
Airline Consultancy Services S.A.R.L., Casablanca	Morocco	100
Ambassador Tours S.A., Barcelona	Spain	100
AMCP S.a.r.l., Montreuil	France	100
Atora GmbH i.L., Kiel	Germany	100
Best4Concept GmbH, Rengsdorf	Germany	100
Boomerang - Solutions GmbH, Trier	Germany	95
Boomerang Reisen - Pacific Tours AG, Zurich	Switzerland	100
FIRST Reisebüro Güttler GmbH & Co. KG, Dormagen	Germany	75.1
FIRST Reisebüro Güttler Verwaltungs GmbH, Hanover	Germany	75
FIRST Travel GmbH, Hanover	Germany	100
Gebeco Verwaltungsgesellschaft mbH, Kiel	Germany	50.2
HANSEATIC TOURS Reisedienst GmbH, Hamburg	Germany	100
Hapag-Lloyd Reisebüro Hagen GmbH & Co. KG, Hanover	Germany	70
Hapag-Lloyd Reisebüro Hagen Verwaltungs GmbH, Hanover	Germany	70
Hotel Club du Carbet S.A., Montreuil	France	100
HV Finance S.A.S., Levallois-Perret	France	100
Ikaros Travel A.E.(i.L.), Heraklion	Greece	100
Loc Vacances S.A.R.L., Chartres de Bretagne	France	100
L'TUR Polska Sp.z o.o., Stettin	Poland	100
L'TUR S.A.R.L., Schiltigheim	France	100
Lunn Poly (Jersey) Limited, St. Helier	Jersey	100
Magic Life GmbH, Vienna	Austria	100
Magyar TUI Utazásszervezö, Kereskedelmi és Szolgáltató Kft., Budapest	Hungary	100
N.S.E. Travel and Tourism A.E. (i.L.), Athens	Greece	100
NEA Synora Hotels Limited (Hinitsa Beach), Porto Heli Argolide	Greece	100
New Eden S.A., Marrakech	Morocco	100
NOF Sociedade Imobiliaria, Lda, Lisboa	Portugal	100
Nouvelles Frontières Burkina Faso EURL, Ouagadougou	Burkina Faso	100
Nouvelles Frontières Tereso EURL, Grand Bassam	Ivory Coast	100
Nouvelles Frontières Togo S.R.L.(i.L), Lome	Togo	99
Reisefalke GmbH, Vienna	Austria	60
Résidence Hôtelière Les Pins SARL (i.L.), Montreuil	France	100
RIUSA Brasil Empreendimentos Ltda., Igarassu (Pernambuco)	Brazil	99
Societe de Gestion du resort Al Baraka, Marrakech	Morocco	100
STAR TOURS Reisedienst GmbH, Hamburg	Germany	100
TLT Urlaubsreisen GmbH, Hanover	Germany	100
Transat Développement SAS, Ivri-sur-Seine	France	100
travel-Ba.Sys Beteiligungs GmbH, Mülheim an der Ruhr	Germany	83.5
Trendturc Turizm Otelcilik ve Ticaret A.S., Istanbul	Turkey	100
TUI 4 U Poland sp.zo.o., Warsaw	Poland	100
TUI d.o.o., Maribor	Slovenia	100
TUI Magyarország Utazasi Iroda Kft., Budapest	Hungary	100
TUI Reisecenter GmbH, Salzburg	Austria	100

Company	Country	Capital share in %
TUI ReiseCenter Slovensko s.r.o., Bratislava	Slovakia (Slovak Republic)	100
TUIFly Academy Brussels, Zaventem	Belgium	100
V.P.M. SA, Levallois Perret	France	100
VPM Antilles S.R.L., Levallois Perret	France	100
All other segments		
Bergbau Goslar GmbH, Goslar	Germany	100
l'tur ultimo minuto S.A., Palma de Mallorca	Spain	51
Mango Event Management Limited, London	United Kingdom	100
Preussag Beteiligungsverwaltungs GmbH XIV, Hanover	Germany	100
Real Travel Ltd, Crawley	United Kingdom	100
Società Consortile a r.l. Tutela dei Viaggiatori i Viaggi del Turchese, Fidenza (Pr)	Italy	100
Sportsworld Holdings Limited, Crawley	United Kingdom	100
Student City S.a.r.l., Paris	France	100
TUI Insurance Services GmbH, Hanover	Germany	100
Joint ventures and associates		
Tourism		
.BOSYS SOFTWARE GMBH, Hamburg	Germany	25.2
Ahungalla Resorts Limited, Colombo	Sri Lanka	40
Aitken Spence Travels (Private) Limited, Colombo	Sri Lanka	50
alps & cities 4ever GmbH, Vienna	Austria	50
Atlantica Hellas A.E., Rhodos	Greece	50
Atlantica Hotels and Resorts Limited, Lemesos	Cyprus	49.9
Bartu Turizm Yatirimlari Anonim Sirketi, Istanbul	Turkey	50
Daktari Travel & Tours Ltd., Limassol	Cyprus	33.3
DER Reisecenter TUI GmbH, Berlin	Germany	50
ENC for touristic Projects Company S.A.E., Sharm el Sheikh	Egypt	50
Etapex, S.A., Agadir	Morocco	35
Fanara Residence for Hotels S.A.E., Sharm el Sheikh	Egypt	50
GBH Turizm Sanayi Isletmecilik ve Ticaret A.S., Istanbul	Turkey	50
Gebeco Gesellschaft für internationale Begegnung und Cooperation mbH & Co. KG, Kiel	Germany	50.1
GRUPOTEL DOS S.A., Can Picafort	Spain	50
Holiday Travel (Israel) Limited, Airport City	Israel	50
Hydrant Refuelling System NV, Brussels	Belgium	25
InteRes Gesellschaft für Informationstechnologie mbH, Darmstadt	Germany	25.2
Interyachting Limited, Limassol	Cyprus	45
Jaz Hospitality Services DMCC, Dubai	United Arab Emirates	50
Jaz Hotels & Resorts S.A.E., Cairo	Egypt	51
Kamarayat Nabq Company for Hotels S.A.E., Sharm el Sheikh	Egypt	50
Karisma Hotels Adriatic d.o.o., Zagreb	Croatia	33.3
Karisma Hotels Caribbean S.A., Panama	Panama	50
Nakheel Riu Deira Islands Hotel FZ CO, Dubai	United Arab Emirates	40
Raiffeisen-Tours RT-Reisen GmbH, Burghausen	Germany	25.1
Riu Hotels S.A., Palma de Mallorca	Spain	49
Sharm El Maya Touristic Hotels Co. S.A.E., Cairo	Egypt	50
Sun Oasis for Hotels Company S.A.E., Hurghada	Egypt	50
Sunwing Travel Group, Inc, Toronto	Canada	49
Teckcenter Reisebüro GmbH, Kirchheim unter Teck	Germany	50
Tikida Bay S.A., Agadir	Morocco	34
TIKIDA DUNES S.A., Agadir	Morocco	30

Company	Country	Capital share in %
Tikida Palmeraie S.A., Marrakech	Morocco	33.3
Togebi Holdings Limited, Nicosia	Cyprus	25
Travco Group Holding S.A.E., Cairo	Egypt	50
TRAVELStar GmbH, Hanover	Germany	50
TUI Cruises GmbH, Hamburg	Germany	50
UK Hotel Holdings FZC L.L.C., Fujairah	United Arab Emirates	50
Vitya Holding Co. Ltd., Takua, Phang Nga Province	Thailand	47.5
All other segments		
ACCON-RVS Accounting & Consulting GmbH, Berlin	Germany	50

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 net assets, financial position and results of operations 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, 11 December 2017

The Executive Board

Friedrich Joussen | Horst Baier | David Burling

Sebastian Ebel | Dr Elke Eller

INDEPENDENT AUDITOR'S REPORT

To TUI AG, Berlin and Hanover

Report on the audit of the consolidated financial statements and the combined management report

Audit opinions

We have audited the consolidated financial statements of TUI AG, Berlin and Hanover, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 September 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 October 2016 to 30 September 2017 as well as the Notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of TUI AG, Berlin and Hanover, for the financial year from 1 October 2016 to 30 September 2017. In conformity with the German legal regulations, we have not audited the section 'Corporate Governance Report / Declaration on Corporate Governance' contained in the combined management report with regard to their content. Furthermore, we have not audited the section 'Non-financial Group declaration' in the combined management report.

In our opinion, based on our knowledge obtained during the audit,

- the accompanying consolidated financial statements comply with the International Financial Reporting Standards (IFRS) as adopted by the EU and the supplementary German legal regulations to be applied in accordance with Section 315a German Commerial Code (HGB) in all material respects and give a true and fair view of the Group's net assets and financial position as at 30 September 2017 as well as its results of operations for the financial year from 1 October 2016 to 30 September 2017 in accordance with these requirements and
- the accompanying combined management report as a whole provides a suitable view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the German legal requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the above-mentioned section 'Corporate Governance Report / Declaration on Corporate Governance' or of the section 'Non-financial Group declaration'.

Pursuant with Section 322 (3) Sentence 1 German Commercial Code (HGB), we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements and the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537 / 2014; hereinafter 'EU Audit Regulation') and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer (IDW)]. We have conducted the audit of the consolidated financial statements also in accordance with International Standards on Auditing (ISA). Our responsibilities under these requirements, principles and standards are further described in the section 'Auditor's responsibility for the audit of the consolidated financial statements and the combined management report' of our report. We are independent of the Group companies in accordance with European and German commercial law and rules of professional conduct and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. In addition, pursuant to Article 10 (2) lit. f EU Audit Regulation, we declare that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 October 2016 to 30 September 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; but we do not provide a separate opinion on these matters.

In the following we present the key audit matters in our view:

❶ Recoverability of goodwill
❷ Recoverability of hotel prepayments
❸ Recoverability of deferred tax assets
❹ Specific provisions
❺ Accounting for the acquisition of Transat France S.A.
❻ Sale of the shares in the Travelopia Group companies
❼ EBITA adjustments

Our presentation of these key audit matters has been structured as follows:

Ⓐ Description of the issue (including reference to associated disclosures in the consolidated financial statements),
Ⓑ Auditor's response.
Ⓒ If necessary important conclusion.

❶ Recoverability of goodwill

DESCRIPTION OF THE ISSUE

In TUI AG's consolidated financial statements as at 30 September 2017, goodwill totalling € 2,889.5 million is reported under the balance sheet item 'Goodwill'. Goodwill is subject at least once a year, on 30 June of the financial year, to a test of its recoverability (known as an impairment test). Measurement is by means of a valuation model based on the Discounted Cash Flow method. The result of this valuation depends to a great extent on the estimate of future cash inflows by the Management Board and also on the discount rate used. The valuation is accordingly fraught with considerable uncertainty. Against this background, we believe that this issue is of particular importance within the framework of our audit.

The Company's disclosures on goodwill are contained in section (13) of the Notes to the consolidated financial statements.

AUDITOR'S RESPONSE

We investigated the process for performing the impairment test of goodwill and conducted an audit of the accounting-relevant controls contained therein. Specifically, we convinced ourselves of the appropriateness of the future cash inflows used in the calculation. To do so, among other things we compared these figures with the current budgets contained in the three-year plan adopted by the Management Board and approved by the Supervisory Board, and checked it against general and industry-specific market expectations. Since even relatively small changes in the discount rate can have a material effect on the amount of the business value determined in this way, we also focused on examining the parameters used to determine the discount rate used, including the Weighted Average Cost of Capital, and analysed the calculation algorithm. Owing to the material significance of goodwill and the fact that the valuation also depends on macroeconomic conditions which are beyond the control of the Company, we also assessed the sensitivity analyses prepared by the Company for the cash-generating units with low excess cover (carrying amount compared to present value).

❷ Recoverability of hotel prepayments

DESCRIPTION OF THE ISSUE

Prepayments to hotels amounting to € 309.5 million are recognised under the balance sheet item 'Touristic payments on account' in TUI AG's consolidated financial statements as at 30 September 2017.

In our opinion, this is a key audit matter, as the measurement of this significant item is based to a large extent on estimates and assumptions made by the Management Board.

The Company's disclosures on Touristic payments on account are contained in section (19) of the Notes to the consolidated financial statements.

AUDITOR'S RESPONSE

We investigated the process of evaluating hotel prepayments and carried out an audit of the accounting-relevant controls contained therein. In the knowledge that there is an increased risk of misstatements in financial reporting with estimated values and that the valuation decisions of the Management Board have a direct and significant effect on the consolidated net income, we have assessed the appropriateness of the valuations by comparing these values with historical values and using the contractual bases presented to us. We assessed the recoverability of hotel prepayments against the background of current developments in Turkey and North Africa. For this we took into account, among other things, the repayment schedules agreed with the hoteliers concerned, the options for offsetting against future overnight accommodation and the framework agreements concluded.

❸ Recoverability of deferred tax assets

DESCRIPTION OF THE ISSUE

TUI AG's consolidated financial statements as at 30 September 2017 report deferred tax assets totalling € 323.7 million under the balance sheet item 'Deferred income tax assets'. Recoverability of the deferred tax assets recognised is measured by means of forecasts about the future earnings situation.

In our opinion, this is a key audit matter because it depends to a large extent on estimates and assumptions made by the Management Board and is fraught with uncertainties.

The Company's disclosures on deferred tax assets are contained in the Notes to the consolidated financial statements under 'Accounting policies' and in Section (20).

AUDITOR'S RESPONSE

We involved our own tax specialists in our audit of tax issues. With their support we assessed the internal processes and controls established for recording tax issues. We assessed the recoverability of deferred tax assets on the basis of internal forecasts on the future taxable income situation of TUI AG and its major subsidiaries. In this context, we referred to the planning prepared by the Management Board and assessed the appropriateness of the planning basis used. Among other things, these were examined in the light of general and industry-specific market expectations.

❹ Specific provisions

DESCRIPTION OF THE ISSUE

Provisions for aircraft maintenance amounting to € 615.4 million and provisions for onerous hotel lease contracts amounting to € 2.5 million are disclosed under the balance sheet item 'Other provisions' in TUI AG's consolidated financial statements as at 30 September 2017. Furthermore, provisions for pensions and similar obligations amounting to € 1,127.4 million were recognized as at 30 September 2017. In our opinion, these are key audit matters, as the recognition and measurement of these significant items are based to a large extent on estimates and assumptions made by the Management Board.

The Company's disclosures on provisions are contained in sections (29) and (30) and in the disclosures on accounting and valuation methods in the Notes to the consolidated financial statements.

AUDITOR'S RESPONSE

We investigated the process of recognising and measuring specific provisions and carried out an audit of the accounting-relevant controls contained therein. In the knowledge that there is an increased risk of misstatements in financial reporting with estimated values and that the valuation decisions of the Management Board have a direct and significant effect on consolidated net income, we assessed the appropriateness of the valuations by comparing these values with historical values and using the contractual bases presented to us.

Among other things we

- assessed the valuation of the provision for onerous hotel leasing contracts, in particular for hotels in Turkey. We did this, among other things, on the basis of the contracts concluded and the Company's profit planning for the individual hotels;
- analysed the calculation of the expected costs of aircraft maintenance. This was done on the basis of Group-wide maintenance contracts, price increases expected on the basis of external market forecasts and the discount rates applied, supported by our own analyses;
- assessed the appropriateness of the valuation parameters used to calculate the pension provisions. Among other things we did this by comparing them with market data and including the expertise of our internal pension valuation specialists.

❺ Accounting for the acquisition of Transat France S.A.

DESCRIPTION OF THE ISSUE

As at 31 October 2016, TUI acquired 99.99 % of the shares in the tour operator Transat France S.A. (and all its subsidiaries) at a purchase price of € 64.0 million. A period of twelve months from the date of acquisition, i. e. until the end of October 2017, is available for carrying out the final allocation of the purchase price to the acquired assets and liabilities. The purchase price allocation was completed by the end of September 2017. In our view, the accounting treatment of the acquisition of Transat France S.A. is a key audit matter, since the identification of the acquired assets and liabilities, their recognition and also their measurement are based to a large extent on estimates and assumptions made by the Management Board.

The company's disclosures on the acquisition of Transat France S.A. are included in the 'Acquisitions' section of the Notes to the consolidated financial statements.

AUDITOR'S RESPONSE

We examined the allocation of the purchase price to the assets and liabilities acquired. For this, we availed ourselves of the expertise of our internal specialists on the topic of accounting for business combinations and assessed the assumptions made in identifying as well as valuing the assets and liabilities, for example by comparing them with market-related data. We scrutinised the calculation models used and, with regard to the planning calculations used, reconciled them with general and industry-specific market expectations.

❻ Sale of the shares in the Travelopia companies

DESCRIPTION OF THE ISSUE

In the financial year 2015 / 16, the Company decided to sell its shares in the companies belonging to the Travelopia Group. For this reason, the companies in the Travelopia Group were categorised as at 30 September 2016 as a disposal group (IFRS 5) and classified as a discontinued operation. The Travelopia companies were sold and deconsolidated with effect from 15 June 2017. The sale of Travelopia Group resulted in a loss of € 151,7 million which consists of the current result of the period until 15 June 2017 of € – 66,4 million, thereof impairment of goodwill amounting to € 47,4 million, and of an overall disposal loss of € – 85,3 million. In our view, the accounting treatment of the disposal is a key audit matter, since the contractual agreements are complex and the impact on the TUI Group are material.

The Company's disclosures on the disposal of its shares in Travelopia are contained in the 'Discontinued operations' section of the Notes to the consolidated financial statements.

AUDITOR'S RESPONSE

As part of the audit of the proper accounting treatment of the sale of the shares in the companies belonging to the Travelopia Group, we examined, among other things, the foundations in company law and the provisions of the underlying sales contract.

In this connection, we examined the fulfilment of the criteria for classification as a disposal group (IFRS 5) during the year, the resulting effects on the valuation of the assets and liabilities, the requirements for classification as a discontinued operation and the deconsolidation of the Travelopia Group.

❼ EBITA adjustments

DESCRIPTION OF THE ISSUE

For steering and analysis purposes, the TUI Group uses operational Earnings Before Interest, Taxes and Amortisation (EBITA), adjusted for special effects. Adjustments to the EBITA of continuing operations of € 75.6 million leading to an increase in EBITA compared to unadjusted EBITA are shown in TUI AG's consolidated financial statements as at 30 September 2017. The adjusted EBITA are used by the Management Board as a significant financial performance indicator in its communications with the capital market.

The adjustments to EBITA were a key audit matter, as they are made on the basis of TUI AG's internal accounting regulations and there is a risk that the Management Board may exercise its discretionary powers one-sidedly.

The Company's disclosures on the adjustments to EBITA and the calculation thereof are presented in the 'Notes to segment data' in the segment reporting in the Notes to the consolidated financial statements.

AUDITOR'S RESPONSE

We analysed the calculation of the adjusted EBITA and took a critical look at the identification of special effects and non-operating earnings influences.

At the same time, we examined, on the basis of the findings of our audit and the information provided by the Management Board, whether the adjustments made were carried out in accordance with the definition and procedure described in the notes to the segment reporting.

OTHER INFORMATION

The Management Board is also responsible for the other information. This other information includes:

- the non-financial statement,
- the Corporate Governance Report / Declaration on Corporate Governance, the assurance pursuant to Section 297 (2) Sentence 4 HGB in relation to the consolidated financial statements and the assurance pursuant to Section 315 (1) Sentence 5 HGB in relation to the combined group management report, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and the combined management report.

Our audit opinions on the consolidated financial statements and on the combined management report do not extend to cover the other information, and accordingly we do not issue an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be substantially misstated.

RESPONSIBILITY OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The Management Board is responsible for the preparation of consolidated financial statements which comply with IFRS, as adopted by the EU, and the supplementary requirements of German legal regulations pursuant to Section 315a (1) German Commercial Code (HGB) in all material respects, so that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. In addition, the Management Board is responsible for the internal controls they have identified as necessary in order to enable the preparation of consolidated financial statements that are free from material misstatements, whether intentional or unintentional.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. Furthermore, it has the responsibility to disclose matters related to going concern, as applicable. In addition, it is responsible for using the going concern basis of accounting, unless the intention is to liquidate the Group or to cease operations or there is no realistic alternative but to do so.

In addition, the Management Board is responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Group's situation, is consistent with the consolidated financial statements in all material respects, complies with the German legal regulations and suitably presents the opportunities and risks of future development. Furthermore, the Management Board is responsible for such arrangements and measures (systems) which it has deemed necessary in order to enable the preparation of a combined management report in accordance with the German legal regulations to be applied and to furnish sufficient and appropriate evidence for the statements in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and with the findings of the audit, is in accordance with the German legal regulations, and appropriately presents the opportunities and risks of future development, as well to issue an auditor's report that includes our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and EU Audit Regulation and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) and subject to supplementary compliance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the combined management report.

As part of an audit, we exercise professional judgement and maintain professional scepticism. We also

- identify and assess the risks of material misstatements in the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of the accounting policies used by the Management Board and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- conclude on the appropriateness of the Management Board's use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that might cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the combined management report, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code (HGB).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its legal consistency and the view it provided of the Group's position.
- perform audit procedures on the forward-looking information presented by the Management Board in the combined management report. On the basis of sufficient appropriate audit evidence, we particularly evaluate the significant assumptions underlying the forward-looking information by the Management Board's and evaluate the correct derivation of the forward-looking information from these assumptions. We do not issue an independent opinion on the forward-looking information or on the underlying assumptions. There is a significant, unavoidable risk that future events will differ materially from the forward-looking information.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and also significant audit findings, including any deficiencies in internal control which we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report, unless law or regulation precludes public disclosure about the matter.

Other legal an regulatory Requirements

Other information pursuant to Article 10 EU Audit Regulation

We were appointed by the annual general meeting on 14 February 2017 to audit the financial statements. We were engaged by the Supervisory Board on 27 February / 19 March 2017 and on 11 / 24 September 2017. We have been engaged as the auditors the consolidated financial statements of TUI AG, Berlin and Hanover, since the financial year 2016 / 17.

We confirm that the audit opinions contained in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 EU Audit Regulation ('Prüfungsbericht').

Review of the Management Board's declaration of compliance with the UK Corporate Governance Code

Pursuant to Section 9.8.10 (1 and 2) of the Listing Rules in the United Kingdom, we were engaged to review Management's statement pursuant to Section 9.8.6R (6) of the Listing Rules in the United Kingdom that relate to provisions C.1.1, C.2.1, C.2.3 and C.3.1 to C.3.8 of the UK Corporate Goverance Code and Management's statement pursuant to Section 9.8.6R (3) of the Listing Rules in the United Kingdom in the financial year 2016 / 17, or, in the case of deviations, the explanations given. We have nothing to report in this regard.

Responsible auditor

The auditor responsible for the audit is Dr Hendrik Nardmann.

Hanover, 11 December 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Schenk	Dr Nardmann
German Public Auditor	German Public Auditor

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.

Financial calender

13 DECEMBER 2017
Annual Report 2017

13 FEBRUARY 2018
Annual General Meeting 2018

13 FEBRUARY 2018
Quarterly Statement Q1 2018

28 MARCH 2018
Trading update

9 MAY 2018
Half-Year Financial Report H1 2018

AUGUST 2018
Quarterly Statement Q3 2018

DECEMBER 2018
Annual Report 2018

PUBLISHED BY
TUI AG
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CONCEPT AND DESIGN
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PHOTOGRAPHY
Christian Wyrwa (p. 9); Michael Neuhaus (p. 18 – 19);
Robinson Club GmbH (cover photo, p. 98 – 99);
Rüdiger Nehmzow (p. 3, 6 – 7); TUI Cruises (p. 132 – 133)

PRINTER
Kunst- und Werbedruck, Bad Oeynhausen, Germany

The Annual Report of TUI Group, and the financial statements of TUI AG are also available online: http://annualreport2017.tuigroup.com

This report was published on 13 December 2017.

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