

Annual Report 2006
Challenging tasks. Clear goals.





Brief profile.

TUI is a group operating internationally, which since 2005 has focused on the two growth segments of tourism and shipping. In both segments TUI holds leading market positions: the TUI Group is Europe's number one tourism company and ranks fifth among worldwide container shipping lines. It is thus positioned as a quality provider in both segments.

Consequently, TUI is well-placed to benefit from the substantial worldwide growth potential that exists in both the travel and container shipping sectors. In determining all its activities, the Group focuses strongly on the requirements for people and goods in a globalised world. Its key task will be to steadily enhance efficiency and performance while maintaining high quality and so achieve a sustainable increase in the corporate value of the TUI Group.






Tourism

TUI is a one-stop shop for holiday tours and has established itself as Europe's market leader in the high-growth tourism sector. Whether for modular web-based bookings or package tours, the Group's tourism division covers the entire travel chain – from bookings over organisation to flight and accommodation – in more than 70 holiday countries.

Its portfolio comprises around 3,200 Group-owned travel agencies, 70 tour operation brands, 120 aircraft, 35 agencies and 279 hotels with a capacity of around 165,000 beds in the destinations.

Brands

Strong tourism brands under one -Roof.

Segment Structure

Central Europe:

Source markets: Germany, Switzerland, Austria, Eastern Europe

✚ Hapag-Lloyd Flug, Hapag-Lloyd Express

Northern Europe:

Source markets: UK, Ireland, Nordic countries

✚ Thomsonfly, TUIfly Nordic

Western Europe:

Source markets: France, Netherlands, Belgium

✚ Corsair, TUI Airlines Nederland, TUI Airlines Belgium

Destinations: Incoming agencies, Hotel companies

Other Tourism: Business travel, IT Services



Shipping

TUI's shipping operations are pooled in Hapag-Lloyd. With 138 container ships and comprehensive logistics services, Hapag-Lloyd is one of the world's top five container lines in the growth market of container shipping. Besides the Far East, the Trans-Pacific and the Atlantic, this globally operating container line also operates in trade lanes Latin America and Australasia.

The second pillar of the shipping division is the premium and luxury cruise segment focusing on lifestyle and expedition cruises on all the world's seas. With cruise vessels such as 'Europa' Hapag-Lloyd has established itself as a leading provider in German-speaking countries.

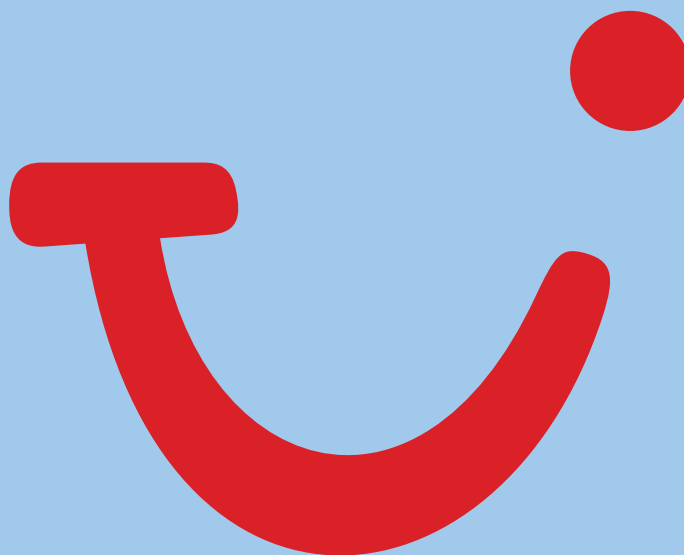
Brands



Segment Structure

Hapag-Lloyd:

Container shipping, Cruises



TUI Group in Figures

		2006	2005	Var. %
Turnover by divisions				
Tourism	€ mill	14,084	14,097	- 0.1
Shipping	€ mill	6,254	3,834	+ 63.1
Others	€ mill	578	1,688	- 65.8
Group	€ mill	20,916	19,619	+ 6.6
Earnings before interest, tax, depreciation and amortisation (EBITDA)				
Tourism	€ mill	781	734	+ 6.4
Shipping	€ mill	212	454	- 53.4
Others	€ mill	- 24	192	n. m.
Group	€ mill	969	1,380	- 29.8
Earnings by divisions (EBITA)				
Tourism	€ mill	394	365	+ 7.8
Shipping	€ mill	- 106	319	n. m.
Others	€ mill	- 56	166	n. m.
Group	€ mill	232	850	- 72.7
Underlying earnings by divisions (underlying EBITA)				
Tourism	€ mill	401	366	+ 9.5
Shipping	€ mill	8	323	- 97.6
Others	€ mill	- 40	18	n. m.
Group	€ mill	369	707	- 47.9
Net profit for the year	€ mill	- 847	496	n. m.
Earnings per share	€	- 3.66	2.29	n. m.
Assets				
Non-current assets	€ mill	10,141	11,883	- 14.7
Current assets	€ mill	2,873	3,491	- 17.7
Total assets	€ mill	13,014	15,374	- 15.4
Equity and liabilities				
Equity	€ mill	3,010	4,367	- 31.1
Non-current liabilities	€ mill	5,262	5,288	- 0.5
Current liabilities	€ mill	4,742	5,719	- 17.1
Total equity and liabilities	€ mill	13,014	15,374	- 15.4
Equity ratio	%	23.1	28.4	- 18.7
Cash flow from operating activities	€ mill	467	965	- 51.6
Capital expenditure	€ mill	750	1,138	- 34.1
Net debt	€ mill	3,211	3,807	- 15.7
Employees	31 Dec	53,930	62,947	- 14.3



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Zielflughäfen und Containerlin

Letter to our Shareholders

Dear Shareholders,

in the 2006 financial year, the tourism division was able to increase its operating earnings in spite of difficult conditions in some markets. However, cost increases and changes in market structures prevented us from meeting our targets for the tourism division, so that some goodwill items were revalued. In container shipping, earnings were impacted by capacity growth and cost increases, accompanied by high one-off costs for the integration of CP Ships. This resulted in a negative group result for the 2006 financial year. The overall result is totally unsatisfactory and does not permit payment of a dividend.

Nevertheless TUI has set out on the right path. The accumulation of negative factors in the 2006 financial year was a unique phenomenon, and we expect to see significant growth in earnings and resume dividend payments again in 2007.

In the tourism division, we continue to be Europe's number one, both in turnover and customer volume terms but also in terms of absolute earnings generated. We hold this leadership position because we are early movers, quickly responding to market trends and adopting a pro-active approach with our own innovative products. Accordingly, as in the three previous years, our earnings growth from tourism operations again outperformed turnover growth in 2006.

We expect this trend to continue in the future. A major step in this direction has been taken with the launch of TUIfly.com. In combining the operations of our previous two German airlines, we are pooling our forces, enlarging our product portfolio and optimising our structures. Moreover, we will expand TUIfly.com into a European distribution platform which may be used to book other travel modules, as well as a comprehensive range of flight connections. This will enhance our presence and relevance for customers in two tourism segments characterised by particularly dynamic growth: low-cost flight operations and modular tours.

Our cruise business is also characterised by strong growth. TUI successfully participates in this trend with clearly positioned products for the German and British markets. In order to achieve a further expansion of our product portfolio, we are buying into the German activities of world market leader Carnival Cruise Corporation, the 'Aida'. We will develop an independent TUI product to attract new customers in the high-volume premium market.

Dr. Michael Frenzel,
Chairman of the Executive Board

Besides selective activities in the new growth segments, we are also expanding our core business. Organised tours offered by tour operators form the core of our tourism business. Product innovation and product quality secure our competitive edge. Strict control and reduction of production costs ensure the profitability and viability of our products. This is another area in which we took decisions in 2006 and where some of these have already been implemented. Overall, our costs will be reduced by € 250 million by 2008.

Two key factors strongly characterised the business trend in shipping in 2006: cost increases and declining freight rates in the market, and high one-off costs for the integration of the operations of CP Ships into Hapag-Lloyd's organisation. Earnings came under substantial pressure due to the combination of these two factors.

However, the integration process marked an enormous achievement. What is more, it was already completed in 2006, i.e. earlier than originally planned. Our material expectations were also surpassed. Full synergies of € 220 million will be achieved as of 2008: € 40 million more than planned. The one-off integration costs of around € 114 million in 2006 will not recur in 2007. Our position as one of the world's five biggest container lines, together with having the leading productivity per employee in the industry, form the healthy basis for a fast and sustainable improvement of our earnings position in the shipping division.

The Group also achieved structural improvements in 2006, which will have a positive effect in subsequent years. Net debt was reduced by around € 600 million year-on-year.

Overall, the TUI Group forged ahead to boost its earnings power. We will consistently follow this path in 2007. We expect to generate substantial earnings growth thanks to the implementation of our decisions and the absence of one-off costs. This will be required in order to achieve an appropriate return on capital employed. And an appropriate return is imperative for our Group's long-term success, our top-priority.

In order to further enhance our return on invested capital, we will increase our earnings and reduce our invested capital. To this end, we have identified assets of around one billion euros which will be released. We will reduce our invested capital by this amount and thus not only boost our profitability but also further reduce our debt.

In 2006, our employees were highly committed and produced an excellent performance in a difficult environment. We would like to extend a vote of thanks to our employees for their dedication. We are convinced, that we will achieve our future objectives given our strongly motivated workforce.

TUI plays a prominent role in two global growth markets – tourism and shipping. With marketable products, optimised cost structures and employees who are service-oriented and highly committed, we are well positioned to face the challenges of the future. We have set out on the right path with our programmes and initiatives to enhance our profitability. Given this constellation, we are a good choice offering positive prospects to our customers and shareholders alike.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Dick van der Meer". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

Two strong pillars, one Group.

- + **Growing** with two of today's strongest growth sectors. With the convergence of the global economy and the desire for mobility, people and goods will be circulating more and more.
- + **Expanding leadership positions.** In tourism, TUI is the market leader in Europe's key source markets. In shipping, it is one of the world's top five container lines due to the successful integration of CP Ships into Hapag-Lloyd.
- + **Convincing quality.** This applies equally to the tourism and shipping divisions. In the tourism division, TUI covers the entire value chain, thus guaranteeing top quality travel – for both modular and package tours. In shipping, Hapag-Lloyd is setting new standards for best practices in the planning, processing and settlement of orders.
- + **Steadily increasing efficiency and earnings.** Through its integration and cost containment programmes, TUI is improving its earnings situation and at the same time creating potential for the establishment of new growth areas.

Challenging tasks.

2006 was an eventful year – and not an easy one for the TUI Group. TUI's strategic goal is to achieve a sustainable increase in corporate value. Although the Group has not yet fully achieved this goal, we remain confident for the future, since our Group is well positioned. In tourism and shipping, two of today's large growth markets, TUI is among the leaders. With its strong brands, TUI will exploit the potential available on the markets and continue to expand its business.

In **tourism**, we have identified clear growth segments and appropriate strategic initiatives. These will allow us to bring change to the tourism market environment while further developing the existing strengths inherent in our business model.

- **Medium-term integration of the TUI Group's European flight operations** under the new brand and sales platform TUIfly.com as a means of further expanding the low-cost and modular growth markets.
- **Expansion of web-based tour sales** and development of the airline brand TUIfly.com into an international travel platform.
- **Entry into the high-growth premium volume business in the German cruise market** by means of a partnership envisaged with world market leader Carnival Cruises.
- **Further selective expansion of the hotel segment** as an essential stage in the tourism value chain, both for the classical package tour market but also the high-growth modular market.

Clear goals.

With the strong growth in modular travel products, the distribution, cost and margin structures of the sector are changing. What is necessary, therefore, is to achieve expansion of the tourism growth segments while simultaneously **optimising cost structures**. A comprehensive cost-cutting programme will achieve a sustainable cost reduction of 250 million euros by 2008.

In **shipping**, the integration of CP Ships' operative business has been completed – earlier than expected and with stronger synergy effects than originally assumed. Today we operate a fleet that meets all customer requirements on all routes worldwide. Following this readjustment, we are now well-placed with our strong, healthy and quality-centred market position.

A further key measure for the long-term enhancement of the TUI Group's profitability is the **optimisation of assets** employed. To this end, a new programme has been launched which is designed to bring about further reductions in net debt. The divestment of marginal operations and an optimisation of fixed assets will have the overall effect of reducing debt by around one billion euros by 2008. In parallel, the Group is also considering further opportunities for **reducing capital tie-up** in flight operations.

The programmes and measures introduced relate not only to the Group's operating divisions of tourism and shipping but also to Group headquarters, TUI AG. Under the **cost containment programme**, expenditure by headquarters is to be cut by one third. To further **improve the efficiency** of Group management, TUI AG and TUI Deutschland GmbH will be brought together into a single organisation. As a result, the new TUI AG will combine the classic holding functions, the central functions of the tourism division and the operative business in source market Germany.



1 access



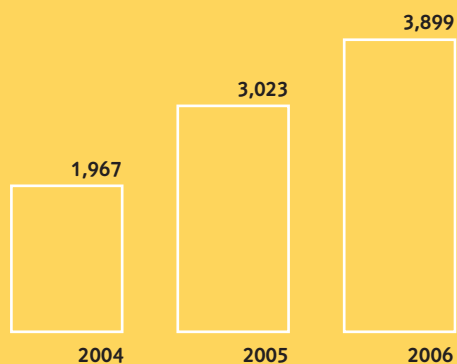
9 source markets

= 20 million
offerings



The internet is continuing to gain importance as a state-of-the-art sales platform for holiday tours. A new segment with strong growth has emerged – a segment that is modular, speedy, low-cost and accessible 24 hours a day. Today's customers search the web for individual travel modules and combine them at will – a trend that TUI has already successfully utilised over the past few years. Online turnover has increased more than fivefold in the last five years. In Germany the Group is already the no. one online travel company, and in Europe it is number two. Looking to the future, TUI has a clear objective: over the next three years, in all source markets we want to achieve an average growth rate of around 50 per cent in our online business.

Internet bookings^{*)}



^{*)} million

We have successfully positioned ourselves on the web.

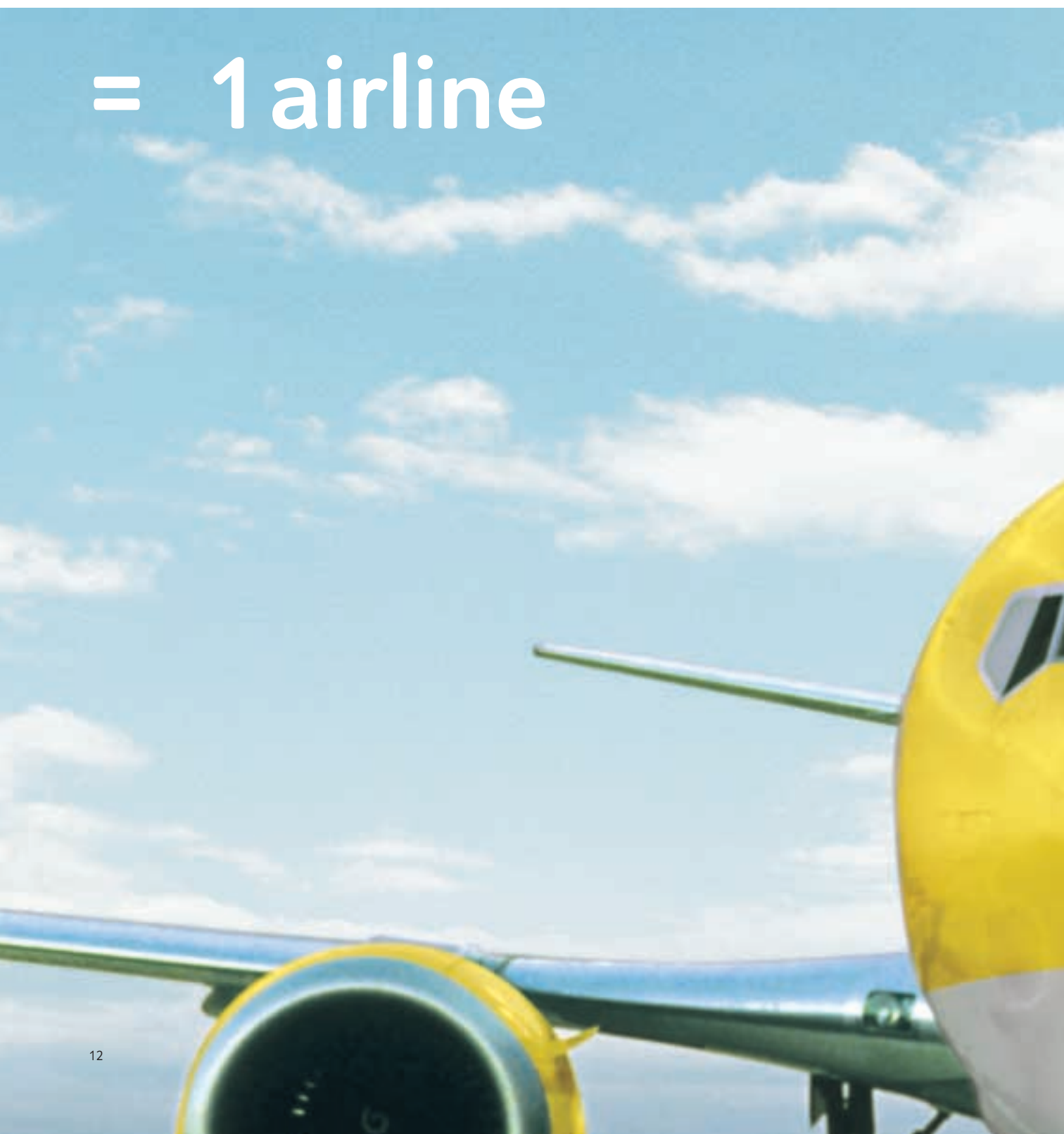


11.1 million passengers

+ 2,200 employees

+ 50 aircraft

= 1 airline



In TUIfly.com we have created Germany's third largest airline.



A large proportion of the growth in the modular travel market is generated on airline websites. Customers begin their holiday planning by booking their flights. Flights are therefore one of the keys to customer contact for TUI. With its strong presence on the web, TUIfly.com opens the door to TUI's wide range of tourism services. TUIfly.com combines the German TUI airlines under a single brand and in the future will integrate all the other TUI airlines into a joint European network. This concentration offers a large number of efficiency benefits.



279 hotels

+ 600 swimming pools

+ 165,000 beds

= 36 million
accommodations



TUI offers high-quality holidays in over 70 countries of the world.



Classic package tours will continue to be a mainstay of TUI's business. Tours with all-inclusive services from flight, hotel and transfer to tour reps and car rental at destination continue to be an attractive option for those wishing to 'play it safe' for the most precious days of the year. In this regard, TUI offers a broad range of high-quality holiday tours in a total of over 70 countries of the world. Good hotels play a crucial part in ensuring customer satisfaction and loyalty. TUI's market position will be further reinforced with the expansion of the hotel segment by 2008.



5 continents

+

100 countries

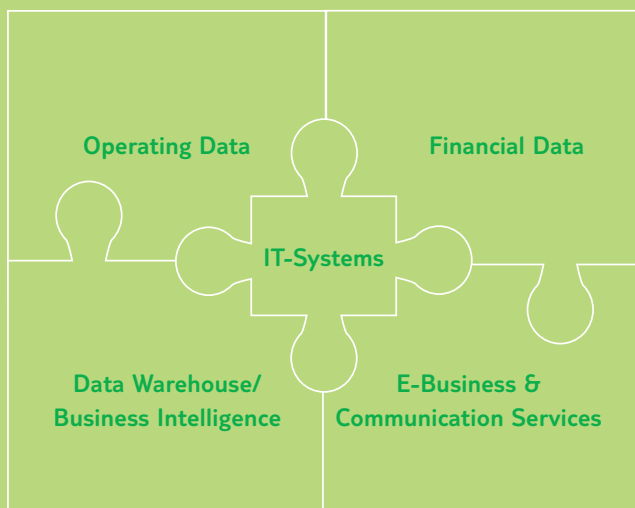
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331 distribution agencies

= 1 IT system



With 138 container ships and 331 distribution agencies in more than 100 countries, Hapag-Lloyd links continents, countries and cultures. As one of the leading providers of worldwide door-to-door container transport, the company offers complex logistics services throughout the transport chain and a comprehensive package of freight transport services, taking as its motto 'One partner, One system'. To enable it to guarantee the same high quality anywhere in the world within the complex worldwide logistics process, Hapag-Lloyd has developed a special IT system, setting standards within the sector. All transport-related data for the global order processing platform is stored in a central system. This means that information relating to all services is available simultaneously anywhere in the world.



Hapag-Lloyd sets service and productivity standards.



- + 138 container ships
- + 467,000 TEU capacity

= 5 million TEU
transport volume

Hapag-Lloyd occupies leading position in worldwide container transport.



Today, Hapag-Lloyd is one of the world's five largest shipping companies. The successful integration of CP Ships, taken over in 2005, has further enhanced its competitive position. The balanced fleet portfolio operates in the world's key regions with all common vessel types. This allows for more efficient capacity planning and thus a flexible response to diverse customer requirements.



- 2 x quality
- + 2 x strong brand
- + 2 x size

= Security & prospects



TUI is built on two strong pillars in high-growth services sectors.



TUI focuses on the two high-growth sectors of tourism and shipping. In both sectors the clear objective is to achieve optimum increases in both efficiency and earnings on the basis of the TUI's size and market positioning. Group activities focus on tapping and expanding high-growth business segments. These include the establishment of a European airline web portal, expansion of the hotel business and the consequent utilisation of the market growth due to the increased container shipping and the launch of the high-volume premium cruise segment.



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2006 – A challenging year. Uneven trends in core businesses. Group earnings impacted by one-off effects. Considerable reduction in net debt.

2006 – at a glance

Uneven trends in core businesses

The TUI Group's performance in the 2006 financial year was characterised by uneven trends in tourism and shipping, its two core businesses. Earnings in both divisions were impacted by special effects of current restructuring operations, offset by one-off income from divestments of shareholdings.

Turnover and earnings in core businesses

At € 14.1 billion, turnover in the tourism division matched 2005 levels. On the other hand, earnings adjusted for one-off effects (underlying EBITA by division) rose by 9.5% to € 401 million. The shipping division increased its turnover by 63.1% to € 6.3 billion due to the first-time inclusion of CP Ships for a full financial year. The operative integration of CP Ships, effected in the 2006 financial year, caused high one-off restructuring expenses. Adjusted for the one-off expenses from the integration process, earnings by the shipping division were slightly positive by € 8 million despite the difficult worldwide market conditions in 2006.

Turnover and earnings by divisions

At € 20.9 billion, turnover by the divisions, comprising the core businesses tourism and shipping but also central operations and discontinuing operations, grew 6.6% year-on-year. Earnings adjusted for one-off effects (underlying EBITA by divisions) totalled € 369 million, down 47.9% year-on-year.

Group earnings impacted by one-off effects

In the 2006 financial year, Group earnings totalled € - 847 million, falling considerably short of 2005 levels. Earnings were impacted by the restructuring expenses, the market-induced weak performance in shipping and impairments of goodwill required in tourism. These impairments related in particular to goodwill in the UK, Ireland and France. Due to the development in these markets, the expected future cash flow had to be reduced so that the earnings target for the entire tourism division was adjusted accordingly. Total impairments of goodwill required amounted to € 710 million.

Substantial reduction in net debt

In the 2006 financial year, the TUI Group's net debt decreased by € 0.6 billion to € 3.2 billion as at the balance sheet date. The reduction in debt was largely attributable to the successful completion of the divestment of the remaining industrial shareholdings (US steel service companies and Wolf GmbH) as well as the divestment of the business travel activities in the tourism division. In addition, the first of the measures, announced in

December 2006, to bring net debt further down could be realised: Seven container ships and a container pool previously owned by CP Ships were sold.

Successful integration of CP Ships

The operative integration of the container shipping company CP Ships, acquired in October 2005, in Hapag-Lloyd was fully completed – significantly faster than expected – in the 2006 financial year. The centrepiece of integration activities was the expansion of Hapag Lloyd's organisational structure and information technology to include the new sites. As early as at the end of the third quarter of 2006, all former CP Ships services had been integrated into Hapag-Lloyd's structure and are now operated under the brand name Hapag-Lloyd.

Completion of Group realignment

With the divestment of the US steel service companies of Preussag North America, Inc. (PNA) to financial investor Platinum Equity in May 2006 and the divestment of the majority shareholding in Wolf GmbH, a heating and air ventilation company, to Centrotec Sustainable AG in October 2006, the TUI Group sold its last remaining industrial shareholdings.

Group structure and business operations

Today, the TUI Group comprises two core businesses, tourism and shipping. This is the result of a realignment process effected over the last years, in which the Group's portfolio of shareholdings was transformed from an industrial conglomerate to a pure services company.

The core businesses, tourism and shipping, will account for around 70% and 30%, respectively, of Group turnover. In accordance with the IFRS definition, the two businesses form the continuing operations. Due to the divestment of the US steel service operations in May 2006, the TUI Group no longer held any discontinuing operations according to the IFRS definition as at the balance sheet date.

Tourism

The tourism division comprises the five sectors Central Europe, Northern Europe, Western Europe, Destinations and Other tourism. The first three of these sectors cover regional source markets, one of the sectors represents the activities in the destinations and the last one of the sectors at the balance sheet date the remaining tourism business.

Central Europe

The Central Europe sector comprises the distribution and tour operator business in Germany, Switzerland, Austria and the Eastern European markets. As at the balance sheet date, the sector also comprised the airlines Hapag-Lloyd Flug and Hapag-Lloyd Express, which were pooled under the TUIfly.com brand in January 2007 in the framework of the Group's new airline strategy. Apart from the airlines, the main operative Group companies in this sector are TUI Deutschland GmbH, TUI Suisse AG and in Austria Gulet Touristik GmbH & Co. KG.

Northern Europe

The Northern Europe sector comprises the distribution and tour operator business in the UK, Ireland and the Nordic countries as well as airlines Thomsonfly (charter and scheduled flights) and TUIfly Nordic. The main

Group companies operating in the distribution and tour operator industry are TUI UK Ltd. and Budget Travel Ltd. in Ireland. In the Nordic countries, TUI Nordic Holding AB covers the distribution and tour operator activities.

Western Europe

The Western Europe sector comprises the distribution and tour operator business in France, the Netherlands and Belgium as well as the airlines Corsair, TUI Airlines Nederland and TUI Airlines Belgium. The main companies operating in the distribution and tour operator business, either directly or via shareholdings, are Groupe Nouvelles Frontières S.A.S., TUI Nederland N.V. and TUI Belgium N.V.

Airlines

The TUI Group's airlines currently operate from the individual source markets and are each thus allocated to the three sectors Central Europe, Northern Europe and Western Europe. At the end of the 2006 financial year, TUI airlines operated a total of 120 aircraft. The Group had two additional aircraft which it had leased out to third parties. In the 2006 summer season, a total of 123 aircraft were used. The seasonal increase in aircraft capacity was covered by correspondingly flexible leaseings of third party airline capacity.

TUI aircraft fleet

Airline	Number of operated aircraft	Average age	Departure from
Hapag-Lloyd Flug	32	5.8	Germany
Hapag-Lloyd Express	16	10.5	Germany
Thomsonfly	46	11.5	UK
TUIfly Nordic	6	9.7	Sweden
Corsair	9	13.4	France
TUI Airlines Nederland	3	16.4	Netherlands
TUI Airlines Belgium	8	12.8	Belgium
Total	120	10.1	

As at 31 December 2006

Destinations

The destinations sector covers TUI's incoming agencies and the Group's hotel companies pooled under TUI Hotels & Resorts.

Incoming agencies

At the end of the 2006 financial year, TUI held shareholdings in 35 agencies in 36 key destinations. TUI held direct or indirect majority interests in some of these companies, while others were operated in the framework of joint ventures or on the basis of minority interests. TUI's main incoming agencies are TUI España, operating in Spain and the Dominican Republic, TUI Portugal, TUI Hellas in Greece, TUI Türkiye and TUI Bulgaria as well as associated agencies in Cyprus, Tunisia and Morocco.

Hotels

TUI Hotels & Resorts operated a total of 279 hotels. 44% of these hotels were owned by the respective hotel company, 11% were leased and 45% were operated in the framework of management or franchise agreements. TUI either had a direct or indirect majority interest in the hotel companies, or they were operated as joint ventures; in addition, TUI also held minority interests to a limited extent.

TUI Hotels & Resorts

Hotel brand	Hotels	Beds	Main sites
RIU	109	74,781	Spain, Caribbean
Magic Life	17	14,778	Egypt, Turkey, Tunisia
Iberotel	23	14,501	Egypt, Turkey
Grupotel	33	13,326	Balearic Islands
Robinson	21	11,359	Spain, Greece, Turkey
Grecotel	21	10,891	Greece
Paladien	16	5,444	France, Greece
Nordotel	7	4,641	Canary Islands, Turkey
Other	32	15,123	–
Total	279	164,844	

As at 2006

Other tourism

With the divestment of the business travel operations (TQ3 Travel Solutions) in the first quarter of 2006 and the majority in IT services companies of TUI InfoTec in the fourth quarter of 2006, the main components of the Other tourism sector were sold in the completed financial year. The remaining activities will be indicated in the source markets in future.

Business model

TUI is an integrated travel provider operating on all stages of the tourism value chain. The value chain comprises distribution, tour operators, airlines, incoming agencies and hotels. Distribution is comprised of travel agencies and direct sales channels such as the internet and call centres. Tour operators offer both package tours and modular travel products. Aircraft seats are offered both as elements of a package tour but also in the form of the seat-only business. Incoming agencies organise hotel transfers and day trips in the holiday destinations. The existing hotel portfolio covers a broad range of products from exclusive hotel accommodation to high-quality family club holidays.

The presence on all stages of the tourism value chain secures the quality of the product portfolio. Combining all stages of the value chain is aimed to achieve a constant high level of utilisation of Group capacity in flight operations and hotels. Capacity in these areas therefore only covers part of the business volume. All additional capacity requested is flexibly provided via third-party services purchased externally. The integrated business model has developed in line with the structural changes in the travel market. The focus is in particular on the separate marketing of individual travel components such as flights and overnight stays via direct selling channels.

Market & competition

The three large European source markets in population figure for the tourism business are Germany with approx. 82 million inhabitants, France with almost 63 million inhabitants and the UK with a population of around 60 million. The favourite holiday destination for German package tour customers is Spain, followed by Germany and Greece. In Europe's second largest package tour market, the UK, the preferred destinations are Spain, Greece and Cyprus. In the French source market, package tours are less popular. French customers prefer land-based tours to French destinations. Concerning air tours, French customers prefer long-haul destinations in the French overseas departments and former colonies in the Indian Ocean and the Caribbean.

At a turnover volume of around € 14 billion in the tourism division in 2006, TUI is Europe's largest integrated tourism group. In terms of reported turnover for 2005, the Thomas Cook Group was the second largest company in Europe, followed by MyTravel in the UK, the German REWE Group, the British First Choice and Kuoni in Switzerland. In terms of turnover, TUI is the market leader by turnover in 2005 in Germany, the UK and France. It is among the three leading tour operators in another eight European countries. In addition, TUI occupies key market positions in the emerging Eastern European tourism markets.

The current consolidation trends in the tourism market are expected to cause shifts in the competitive position. With the announced merger of Thomas Cook and MyTravel, the new company Thomas Cook Group plc. would expand its market position as Europe's number two. In the British market Thomas Cook Group plc. would be then the biggest supplier in terms of turnover.

Strategy

The tourism market is currently undergoing a phase of structural change, strongly characterised by the growing demand for modular travel products. The basis of this trend is the dynamic expansion of the internet as a platform for information and bookings as well as the sustained growth of the low-cost airlines.

The structural market changes create the need for a development of business models – in particular in the tour operator and airlines sector – in order to fully exploit the current market growth. TUI anticipated this change at an early point in time and actively helped to shape it. In order to generate further profitable growth, clear strategic approaches have been defined:

- In the framework of the airline strategy, a first step was to combine the two German airlines Hapag-Lloyd Flug and Hapag-Lloyd Express into the new brand TUIfly.com. A uniform online portal was created under this brand name in January 2007. A further strategic goal is the integration of all European airline activities of the TUI Group into the new brand and distribution platform TUIfly.com. This strategy forms the basis for sustainable participation in the growth segments of low-cost and modular tours.
- In the framework of the distribution strategy, a further expansion of web-based journey distribution has been planned, aiming to achieve average growth in the next three years of 50% in the respective source markets. Alongside this strategy, the new TUIfly.com brand will be expanded into an international travel platform.
- In addition, cruise activities will be expanded by means of entry into the fast-growing German premium volume market segment.
- The Group's hotel strategy is aimed at achieving a further selective expansion of the existing portfolio. The planned growth in this stage of the value chain is to be based both on an expansion of the hotel portfolio for the classic package tour market and the fast-growing modular travel market.

Besides the expansion of the growth areas, the structural market changes require the further development of existing production structures. In order to decrease specific production costs, a set of measures was launched to achieve further cost savings of € 250 million by 2008.

Shipping

The shipping division breaks down into the two sectors of container shipping and cruises with the respective key operative Group companies Hapag-Lloyd AG and Hapag-Lloyd Kreuzfahrten GmbH.

Container shipping

In 2006, the focus in container shipping was above all on the integration of the Canadian shipping company CP Ships, acquired in October 2005. The centrepiece of integration activities was the expansion of Hapag-Lloyd's organisational structure according to the 'blueprint model' pattern as well as the expansion of Hapag-Lloyd's IT systems to cover the new sites. By the end of the third quarter of 2006, all operative business elements of CP Ships, in particular the vessel and container fleets and liner services, were an integral element of Hapag-Lloyd and are now operated under the Hapag-Lloyd brand.

In the framework of the integration of CP Ships, the legal structures of the shipping division were reorganised. The former lead company Hapag-Lloyd AG with its two subsidiaries Hapag-Lloyd Container Linie GmbH and Hapag-Lloyd Kreuzfahrten GmbH, in turn, was a direct subsidiary of TUI AG. In the wake of the legal restructuring of the division, Hapag-Lloyd AG was merged with TUI AG in two steps. The business operations of the former lead company Hapag-Lloyd AG were transferred in the course of a business transfer to Hapag-Lloyd Container Linie GmbH. In the framework of this transaction, Hapag-Lloyd Container Linie GmbH was converted into a stock corporation and has since then been operating under the name Hapag-Lloyd AG. As a result, the new Hapag-Lloyd AG and Hapag-Lloyd Kreuzfahrten GmbH are direct subsidiaries of the Group holding TUI AG.

Trade lanes

The operative business in container shipping is broken down into trade lanes, with each trade lane comprising a number of individual routes. With the integration of CP Ships, the Hapag-Lloyd reporting structure was expanded from four to five trade lanes. The new geographical structure comprises the trade lanes Far East, Trans-Pacific, Atlantic, Latin America and Australasia.

Capacities

As at the end of the 2006 financial year, Hapag-Lloyd operated a total of 138 vessels including CP Ships' fleet, fully integrated in 2006. Of the total fleet, 56 vessels were owned by the company, 40 were subject to long-term charter or leasing contracts and 42 vessels were subject to short-term charter agreements. The average age of the fleet was 8.2 years. In the course of the extension of shipping capacity seven vessels were delivered in the completed financial year; one with a capacity of 8,750 standard containers (TEU), six with 4,250 TEU. By 2008, another five vessels with a capacity of 8,750 TEU and two with a capacity of 4,250 TEU are to be delivered. Besides the vessels, the division held containers with a total capacity of around 1,015,000 TEU, most of which were owned.

The table below lists the number of container ships operated at the end of the 2006 financial year, broken down according to size categories, average age and capacity.

Container vessel fleet

	Total number	Average age	Capacity in TEU
Under 2,300	46	13.0	75,936
2,300 – 4,000	39	12.3	114,335
4,000 – 6,000	40	6.5	176,878
Over 6,000	13	2.7	100,071
Total	138	8.2	467,220

As at 31 December 2006

Cruises

Alongside container shipping, the shipping division comprises Hapag-Lloyd Kreuzfahrten GmbH. With its four cruise ships in the luxury and premium segments, this company focuses in particular on the lifestyle and expedition cruise business in the German market.

Business model

Like most large container shipping companies, Hapag-Lloyd AG primarily offers world wide door-to-door container transports. However, in addition it also offers pure sea transports of containers. With comprehensive logistics services, also carried out by subcontractors, Hapag-Lloyd covers all stages of the transport chain, from the shipment of cargo in containers from the consignor to a seaport, shipment to the port of destination and shipment to the final destination by rail, truck or inland waterway vessel. Concerning the overall transport handling, Hapag-Lloyd is the customer's main contractor for door-to-door transactions.

Hapag-Lloyd operates on a worldwide scale. With more than 330 branches and offices in more than 100 countries it has a presence on all five continents. Hapag-Lloyd deploys its vessels mainly on the high-volume East-West routes; in particular the routes between Europe and North America and between Asia and Europe respectively North America. Key elements of its business model are the blueprint model and the fully integrated IT network. The blueprint model comprises a world wide uniform office organisation and process standards for a smooth course of business. It is based on an IT network linking up all sites worldwide in real-time. This organisational structure facilitates optimum control of container flows in terms of costs and yields as well as tailored solutions both for customer's individual transport needs and for the handling of the constantly growing information requirements of customers, port and customs authorities.

Market & competition

Container shipping is a global business. The number of shipped containers has more than doubled over the past ten years and stood at around 100 million TEU in 2006 (source: Global Insight, November 2006). Within that period, the transport volume rose on average by 9.4% annually, thus growing faster than world trade and world gross national product. According to forecasts by research institutes, the volumes shipped in container shipping will continue to rise disproportionately. This is attributable to the increase in world trade and the increasing relocation of production from West to East. Further on, container transports of goods and raw materials currently still shipped in conventional ways is growing.

Worldwide container shipping is broken down into several large trade lanes, each of which comprises a number of routes. Each route links up different ports and can have different frequencies. In 2006, inner-Asian transport was the highest-volume trade lane with 22 million TEU, followed by Trans-Pacific with 20 million TEU, Europe/Far East with 18 million TEU and Atlantic with 7 million TEU as well as Latin America with 3 million TEU.

Some of the Top 20 companies in container shipping are members of one of the international alliances. Within these consortia all transport capacity is jointly used and departure times are coordinated. This allows the members to offer their customers a larger number of routes with higher frequencies as those they would be able to offer on their own. Hapag-Lloyd is a founding member of Grand Alliance, one of the world's largest container shipping consortia.

In terms of shipping capacity, the Danish shipping company Maersk is the largest container shipping company. Following the takeover of P&O Nedlloyd, Maersk has a capacity of around 1.7 million TEU and is almost twice as large as the number two, the Swiss Mediterranean Shipping Co. (MSC). The players ranking next are the French CMA/CGM and the Taiwanese Evergreen Line. With CP Ships, acquired in 2005, TUI's shipping division has a capacity of 467 thousand TEU and thus ranks fifth.

Strategy

For the shipping division, TUI pursues a growth strategy aimed at achieving minimum growth of 9% annually and thus matching the expected average volume growth of the industry. TUI's fundamental growth orientation is supported by the following strategies:

- Selective capacity growth of 8% to 15% depending on the geographical markets
- Efficient investment management to channel capital into large categories of ships
- Consistent use of the synergies leveraged by the integration of CP Ships, completed in the 2006 financial year
- Flexible capacity management by means of a balanced fleet financing mix of ownership/long-term charter and short-term charter

Group parent company

TUI AG

TUI AG is the Group's parent company, headquartered in Hanover. It holds interests – usually 100% stakes – in the key Group companies operating the Group's operative business in the individual countries, either directly or indirectly. These companies, in turn, hold shares, too. At the balance sheet date, TUI AG's group of consolidated companies comprised 387 direct or indirect subsidiaries, including 39 German companies and 348 companies headquartered abroad. In addition, 22 associated companies and 32 joint ventures were included in TUI AG's consolidated financial statements measured at equity.

Organisation and management

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

Appointments and dismissals of Executive Board members are effected in accordance with sections 84 f. of the German Stock Corporation Act in combination with section 31 of the German Co-Determination Act. Amendments to the Articles of Association are effected in accordance with the rules of sections 179 ff. of the German Stock Corporation Act in combination with section 24 of TUI's Articles of Association.

***Executive Board and
Executive Committee***

As at the balance sheet date, the Executive Board of TUI AG comprised six members: the Chairman and five other Board members in charge of Finance, Human Resources/Legal, Controlling, Tourism and Shipping. An Executive Committee was set up in order to manage the Group's operative business. At the balance sheet date, it comprised the members of TUI AG's Executive Board and a total of five divisional directors in charge of Central Europe, Northern Europe, Western Europe and Hotels & Resorts in the tourism division as well as shipping.

General development

Economic framework

In 2006, the world economy continued to grow overall. The International Monetary Fund (IMF) forecasts an increase in world gross domestic product of 5.1% (IMF, September 2006). Growth thus roughly matched 2005 levels and was slightly up on the medium-term average. In the course of the year, world economic growth decelerated. This was due to a slow-down in economic momentum in the US and to a lesser extent also in Japan. This was not fully offset by expansion in the eurozone, which accelerated in the course of the year. In the wake of global economic growth, world trade picked up significantly, as in 2005. For 2006, the IMF expects world trade to grow by 8.9% and thus outperform the world economy.

Americas and Asia

Development in the regions

In the course of the year, the individual economic regions showed considerable differences in economic trends. Economic growth in the US slowed down noticeably in the course of 2006. It was curbed by weaker demand by private households and very high residential property portfolios, which cooled the real estate market. For the overall year, economic growth matched 2005 levels. Japan's economy continued to grow at the same rate as in 2005, with economic activity slowing down substantially in the second half of the year due to a restrictive public investment policy. In Asia, China and India again recorded high growth rates. The remaining emerging economies of South East Asia recorded robust economic growth but did not reproduce the high growth levels achieved in 2005 in each individual case. Latin America reported a slight year-on-year increase in growth rates thanks to strong domestic demand.

Eurozone

In the eurozone, the economy recorded a substantial upturn. The recovery of economic growth was primarily based on the upswing in Germany, France and Italy. Economic momentum was driven by an increase in domestic demand in combination with a substantial expansion of capital investment. Private consumption picked up slightly.

Tourism

Development of the divisions

In the tourism division, the development of worldwide markets fell only slightly short of the forecast made at the beginning of the year. The World

Tourism Organization (UNWTO) expected growth to continue at a rate of 4 to 5% in 2006, following a decline in 2003. At 4.5%, growth in 2006 fell only slightly short of the forecast of 4.6% for 2006, based on international tourism arrivals (UNWTO World Tourism Barometer, January 2007). However, this growth was above all supported by the strong economic development in certain countries. Several Asian countries, such as South Korea, China and India, but also Brazil and Poland reported double-digit growth rates in departures. Growth in the two large European markets Germany and UK, in contrast, was significantly below average. Bookings in these countries declined due to the good weather and above all the Soccer World Cup as well as the fear of terrorist attacks. Bookings in Belgium, the Netherlands and Italy, in contrast, picked up considerably in recent months compared with booking levels at the beginning of the year.

Shipping

In 2006, worldwide, a total of 100 million standard containers (TEU) were shipped on overseas routes, an increase of 8.8% year-on-year (Global Insight, November 2006). The global containerised transport volume thus grew virtually in line with the forecast expansion of world trade. The increase in demand for container transport was based on the solid growth of the world economy and the increase in the interdependence of economic areas in the framework of globalisation. Besides the pronounced global division of labour, the situation is characterised by the continual relocation of production processes from the industrialised countries to the Asian emerging markets. As a result, the highest growth rates were again achieved on the routes from Asia to Europe and in the Pacific region. However, the positive volume trend in container shipping went hand in hand with adverse framework parameters in the 2006 financial year: high average bunker costs throughout the year, strongly increased terminal and canal costs, declining freight rates in important trade lanes and an increase in structural imbalances of cargo flows. The number of no-load containers having to be transferred from regions with container overhangs to regions with container deficits rose increasingly.

Assessment of economic framework

The economic trend in the 2006 financial year largely met the expectations of the Executive Board and thus matched the macroeconomic framework assumed as the basis for the budget. Both core businesses were impacted by the high average aircraft fuel and bunker costs in 2006. In tourism, several exogenous events such as the avian flu, the caricature controversy at the beginning of the year and the conflict in the Middle East temporarily affected customers' booking behaviour in the markets. For the shipping division a declining business situation due to increasing shipping capacity beside positive volume growth for the entire year was expected. Strong cost increases and declining freight rates – triggered by hard competition – overall in the branch resulted in considerably stronger adverse effects on Group earnings than expected.

Group Turnover and Earnings **Earnings growth in tourism. Market-induced year-on-year decline in shipping.**

2006 was a challenging year for the TUI Group. Both core businesses – tourism and shipping – were impacted by one-off effects concerning on-going restructuring programmes according to IAS 37 and other one-off items. Against this gains on disposals were generated from divestments of shareholdings. In order to ensure a transparent presentation of the development of earnings by divisions, the comments presented below comprise a reconciliation to underlying earnings (underlying EBITA by divisions).

Due to the short period between the completion of the acquisition of CP Ships in October 2005 and the preparation of the consolidated financial statements for 2005, a preliminary revaluation of the acquired assets and liabilities (purchase price allocation) was effected as at 31 December 2005. The final purchase price allocation in October 2006 had minor effects on the Group's profit and loss statement. In order to enhance the comparability of figures, the figures for the 2005 financial year were restated. A corresponding explanation and reconciliation is provided in the section on 'Accounting principles' in the notes on the consolidated financial statements.

Turnover and earnings by divisions

Assessment of the earnings situation

In the completed financial year, tourism and shipping, the Group's core businesses, recorded uneven business trends. Both divisions were characterised by restructuring expenses and the impact from other one-off items while tourism also reported gains on disposals from the divestment of shareholdings. Adjusted for these effects, tourism increased its earnings level year-on-year. The overall positive trend was curbed by the poor performance of the French market and the increasingly difficult competitive conditions in the British and Irish markets. The development of earnings of the shipping division was characterised by the development of freight rates in the cyclical container shipping. Earnings were determined by the high average bunker costs and the intensification of competition, which went hand in hand with a decline in freight rates. Moreover, high integration costs associated with the integration of CP Ships, acquired in October 2005, were incurred in the completed financial year. Adjusted for these effects, shipping achieved a slightly positive result and confirmed its high productivity level in comparison with its competitors. Overall, earnings by tourism did not match the expectations of the Executive Board while the market-induced earnings level posted by the shipping division fell considerably short of expectations.

Development of turnover by the divisions

Turnover by divisions

€ million	2006	2005	Var. %
Tourism	14,083.9	14,096.5	- 0.1
Central Europe	5,803.1	5,749.6	+ 0.9
Northern Europe	4,794.4	4,809.2	- 0.3
Western Europe	2,815.2	2,753.7	+ 2.2
Destinations	599.0	532.5	+ 12.5
Other tourism	72.2	251.5	- 71.3
Shipping	6,254.0	3,834.2	+ 63.1
Central operations	176.7	269.6	- 34.5
Continuing operations	20,514.6	18,200.3	+ 12.7
Trading	401.0	1,002.9	- 60.0
Special logistics	–	415.4	–
Discontinuing operations	401.0	1,418.3	- 71.7
Turnover by divisions	20,915.6	19,618.6	+ 6.6

Continuing operations

Turnover by the continuing operations comprised the core businesses tourism and shipping as well as central operations.

At € 14.1 billion, turnover in the tourism division was on previous year's level despite the divestments of the business travel activities as well as the majority interest in TUI InfoTec both shown in the Other tourism sector. Adjusted for the development of turnover in Other tourism, turnover grew by 1.2%. Significant year-on-year turnover growth was achieved in the Western Europe sector in source markets Netherlands and Belgium. The destinations sector also managed to increase its turnover both in the agency and hotel business.

The shipping division increased its turnover by 63.1% to € 6.3 billion. Growth was mainly driven by the additional turnover volume of CP Ships, the container shipping line acquired in October 2005.

At € 177 million, central operations posted a 34.5% year-on-year decline in turnover in the 2006 financial year. This was due to a decrease in turnover by the real estate companies due to the divestment of parts of the property portfolio already effected at the end of the 2005 financial year. Another reason for the decline in turnover was the divestment of the majority interest in Wolf GmbH, a heating and air conditioning company, in October 2006.

Discontinuing operations

The discontinuing operations reported turnover of € 401 million, down by 71.7% year-on-year. In the 2006 financial year, discontinuing operations only comprised the trading sector. The divestment of the trading activities in May 2006 and of the special logistics operations in the 2005 financial year caused a corresponding year-on-year reduction in turnover.

Turnover by divisions

At € 20.9 billion, total turnover of the TUI Group's divisions in the 2006 financial year climbed by 6.6% year-on-year. Since the shipping division posted a consolidation-related increase in turnover, it accounted for a higher proportion of turnover at 29.9% (previous year: 19.5%). Tourism accounted for 67.3% of turnover (previous year: 71.9%). The proportion

of turnover of central operations and discontinuing operations declined to 2.8% (previous year: 8.6%) due to the divestments.

Development of earnings by the divisions

Earnings by divisions (EBITA)

€ million	2006	2005	Var. %
Tourism	393.7	365.2	+ 7.8
Central Europe	89.5	65.9	+ 35.8
Northern Europe	81.0	102.9	- 21.3
Western Europe	- 53.7	- 2.6	n. m.
Destinations	136.1	185.2	- 26.5
Other tourism	140.8	13.8	n. m.
Shipping	- 106.2	319.3	n. m.
Central operations	- 84.7	- 94.0	+ 9.9
Continuing operations	202.8	590.5	- 65.7
Trading	17.1	67.3	- 74.6
Special logistics	5.3	158.6	- 96.7
Divestments	7.2	34.0	- 78.8
Discontinuing operations	29.6	259.9	- 88.6
Earnings by divisions (EBITA)	232.4	850.4	- 72.7

Continuing operations

Earnings by the continuing operations tourism and shipping as well as central operations (before interest, taxes and amortisation of goodwill) declined by 65.7% to € 203 million in the 2006 financial year. Earnings were affected by one-off effects, above all the restructuring expenses and other one-off items in tourism and shipping as well as gains on disposals in connection with the divestments.

Underlying EBITA by division: Tourism

€ million	2006	2005	Var. %
EBITA by division	393.7	365.2	+ 7.8
<i>Gains on disposals</i>	- 153.3	- 13.1	
<i>Restructuring expenses</i>	+ 100.6	+ 18.3	
<i>Other one-off items</i>	+ 59.5	- 4.6	
Underlying EBITA by division	400.5	365.8	+ 9.5

At € 394 million, earnings by tourism climbed 7.8% year-on-year. Earnings comprised gains on disposals of € 153 million which arose in the Other tourism sector due to the divestment of the business travel activities (€ 151 million) and the share in TUI InfoTec (€ - 11 million) and the Western Europe sector due to the divestment of the Dutch specialist tour operators (€ 13 million). On the other hand, restructuring expenses of € 101 million were incurred, mainly implemented in the Central, Northern and Western Europe sectors. Furthermore other one-off items of € 60 million had to be considered. These comprised in particular impairments on hotel resorts in the Turkey destination (€ 30 million), one-off effects from a litigation in connection with a leasing contract for a holiday club resort (€ 6 million), expenses for the Boing 747-fleet renewal programme at Corsair (€ 12 million) and further one-off effects from restructuring in the Northern and Western Europe sector (€ 12 million). The financial year 2005 included restructuring expenses in the Northern Europe sector and income from divestments of smaller shareholdings and a small income from other one-off items. In total, underlying earnings rose by 9.5% to € 401 million year-on-year.

Underlying EBITA by division: Shipping

€ million	2006	2005	Var. %
EBITA by division	- 106.2	319.3	n. m.
<i>Gains on disposals</i>	-	-	
<i>Restructuring expenses</i>	+ 66.4	-	
<i>Other one-off items</i>	+ 47.4	+ 3.2	
Underlying EBITA by division	7.6	322.5	- 97.6

The shipping division posted earnings of € - 106 million, a considerable decline on 2005 earnings of € 319 million. The negative earnings trend was attributable to the difficult market environment in the container shipping industry in the 2006 financial year. Earnings were impacted by the decline in freight rates in almost all trade lanes in the course of the year, accompanied by high fuel costs. In addition, considerable one-off restructuring expenses (€ 66 million) and the impact from IT system changes and the closure of agencies (€ 47 million) were incurred in connection with the integration of CP Ships. Overall integration costs amounted to € 114 million in 2006. Adjusted for the one-off effects earnings for the shipping division were slightly positive.

Underlying EBITA by division: Central operations

€ million	2006	2005	Var. %
Earnings by the holdings	- 179.7	- 154.6	- 16.2
Cost of corporate centre functions of TUI AG and the interim holdings	- 104.2	- 109.7	+ 5.0
Other expenses and income	75.5	- 44.9	- 68.2
Other operating areas	95.0	60.6	+ 56.8
EBITA by division	- 84.7	- 94.0	+ 9.9
<i>Gains on disposals</i>	- 34.7	-	
<i>Restructuring expenses</i>	-	-	
<i>Other one-off items</i>	+ 65.0	-	
<i>Revaluation of conversion rights</i>	- 15.0	+ 2.2	
Underlying EBITA by division	- 69.4	- 91.8	+ 24.4

Earnings by central operations comprised TUI AG's corporate centre functions and the interim holdings and other expenses and income as well as other operating areas comprising the Group's real estate companies and the remaining industrial operations.

Earnings by central operations totalled € - 85 million, an increase of 9.9% year-on-year. The cost of TUI AG's corporate centre functions and the interim holdings declined by 5.0% to € - 104 million as the consultation costs for the acquisitions and financing measures included in 2005 earnings were no longer incurred. The amount of other expenses and income, which primarily comprised the valuation of assets and liabilities, stood at € - 76 million (previous year: € - 45 million). This was due to a non liquidity effective foreign currency exchange loss caused by capital adjustments at subsidiaries (€ 65 million). Furthermore they included earnings from the revaluation of the conversion options from the 2003 convertible bond of € 15 million (previous year: € - 2 million). Earnings by the other operating areas grew by 56.8% to € 95 million. They comprised income from a divestment in the real estate sector (Schacht Konrad) and the gain on the disposal from the divestment of the interest in Wolf GmbH

in the fourth quarter of 2006 (€ 35 million), the Group's last remaining industrial activity. Adjusted for the net result of disposals, foreign currency exchange loss due to capital adjustments and earning effects from the revaluation of the conversion options included in earnings, earnings by central operations increased by 24.4% to € - 69 million.

Discontinuing operations

Earnings by discontinuing operations declined to € 30 million (previous year: € 260 million). This earnings trend was due to the divestment of the steel trading activities in May 2006 and the divestments of the special logistics operations in the 2005 financial year. Earnings comprised the net result of disposals from the divestment of steel trading operations as well as subsequent income from divestments already effected in the previous years. These effects almost balanced each other out.

Underlying EBITA by division: Group

€ million	2006	2005	Var. %
EBITA by divisions	232.4	850.4	- 72.7
<i>Gains on disposals</i>	- 187.8	- 162.4	
<i>Restructuring expenses</i>	+ 167.0	+ 18.3	
<i>Other one-off items</i>	171.9	- 1.4	
<i>Revaluation of conversion rights</i>	- 15.0	+ 2.2	
Underlying EBITA by divisions	368.5	707.1	- 47.9

Earnings by divisions Group

Overall, the TUI Group reported earnings by divisions (before taxes and amortisation of goodwill) of € 232 million in the 2006 financial year, a decline of 72.7% year-on-year. Adjusted for one-off effects, earnings totalled € 369 million.

Value-oriented Group management

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

Key management variables in connection with regular value analysis are ROIC (Return on Invested Capital) and absolute value added. In the framework of the regular performance measurement, ROIC is compared with the division-specific cost of capital.

Cost of capital

The cost of capital is calculated as the weighted average cost of capital (WACC). The cost of equity included in WACC reflects investors' yield expectations when investing in TUI shares. The cost of loan capital is based on the average financing terms and conditions of the TUI Group. In order to account for the different return/risk profiles of the two core businesses tourism and shipping, corresponding division-specific costs of capital before income taxes are determined. The cost of capital was 8.8% in the tourism division and 7.9% in the shipping division. For the Group as a whole, the variable stood at 8.5%.

ROIC and value added

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

Value-oriented key figures

€ million	Tourism		Shipping		Group	
	2006	2005	2006	2005	2006	2005
Underlying EBITA by divisions	400.5	365.8	7.6	322.5	368.5	707.1
∅ Invested capital ¹⁾	5,056.1	5,346.2	2,842.3	2,083.3	7,859.6	7,694.6
ROIC	7.9%	6.8%	0.3%	15.5%	4.7%	9.2%
Weighted average cost of capital (WACC)	8.8%	8.8%	7.9%	7.9%	8.5%	8.5%
Value added	- 44	- 105	- 217	158	- 300	53

¹⁾ Average value based on position at the beginning and year-end position

Tourism

ROIC in tourism rose by 1.1 percentage points to 7.9%. The year-on-year increase was attributable to the rise in earnings by the division and a reduction in invested capital. The decline in invested capital was driven by the impairment of goodwill in the 2006 financial year. ROIC before impairments was 7.4%. ROIC of the tourism division fell short of the division-specific cost of capital, as in 2005. This resulted in a negative value added of € 44 million for the 2006 financial year.

Shipping

Due to the market-related decrease in earnings, the shipping division reported a decline in ROIC to 0.3%, following the high ROIC level achieved in 2005. Invested capital rose due to the full inclusion of the increased equity base in the framework of the acquisition of CP Ships effected in 2006. A negative value added of € 217 million was generated based on the division-specific cost of capital.

Group

In the 2006 financial year, Group ROIC amounted to 4.7% falling short of the cost of capital of 8.5%. This was due in particular to the declining trend in returns from shipping. Following positive value added of € 53 million in 2005, negative value added of € 300 million arose for 2006.



Tourism

TUI has a clear objective: growth. Since the growth in tourism is largely generated via the web, TUI's internet and airline strategies will need to be dovetailed closely and effectively. Combined with the cost-cutting programmes already adopted, this will ensure that we continue to launch attractive travel offerings on the market.

Tourism Increased earnings. Difficult market environment in the UK and France.

For the tourism division, 2006 was a year characterised by varying trends in individual source markets. The 2006 financial year saw off to a slow start. Business picked up in the second quarter, partly due to the Easter holiday that fell into that period. The business trend smoothed out at 2005 levels in the third quarter. Several source markets recorded slight declines in bookings due to the good weather and above all the Soccer World Cup. In the fourth quarter, the summer season ended with a just satisfactory performance. The first two months of the 2006/2007 winter season were very promising, with the exception of the UK and France.

Turnover and earnings in tourism

Tourism – Key figures

€ million	2006	2005	Var. %
Turnover	14,083.9	14,096.5	- 0.1
Cost of materials	10,056.3	9,767.2	+ 3.0
Personnel costs	1,827.3	1,898.7	- 3.8
Other income and expenses	- 1,462.2	- 1,731.4	+ 15.5
At equity result	43.0	35.0	+ 22.9
EBITDA	781.1	734.2	+ 6.4
Depreciation less reversals of depreciation	387.4	369.0	+ 5.0
EBITA by division	393.7	365.2	+ 7.8
<i>Gains on disposals</i>	- 153.3	- 13.1	
<i>Restructuring expenses</i>	+ 100.6	+ 18.3	
<i>Other one-off items</i>	+ 59.5	- 4.6	
Underlying EBITA by division	400.5	365.8	+ 9.5
Investments	542.7	566.5	- 4.2
Headcount (31 Dec)	44,409	50,498	- 12.1

In 2006, turnover by the tourism division matched the previous year's level by € 14.1 billion. The Central Europe sector grew slightly by 0.9% due to an increase in tour operator customers. This growth was largely attributable to Hapag-Lloyd Express, operating in the low-cost segment. The Northern Europe sector recorded a slight decline in turnover of 0.3% with an increase in customer figures. In the Western Europe sector, turnover increased slightly by 2.2% with stagnating customer numbers. The destinations sector recorded turnover growth of 12.5% in the period under review, while Other tourism reported a decline, in particular due to the divestment of business travel activities.

Customer numbers Tourism

'000	2006	2005	Var. %
Central Europe	10,542	10,284	+ 2.5
Northern Europe	6,999	6,858	+ 2.1
Western Europe	4,389	4,430	- 0.9
Total	21,930	21,572	+ 1.7

In the tourism division, the cost of materials rose by 3.0% to € 10,056 million, primarily due to the increase in the cost of aircraft fuel in flight operations. As a result, the cost of materials ratio rose to 71.4% (previous year: 69.3%).

Personnel costs declined by 3.8% to € 1,827 million although they comprised cost increases caused by the launch of the restructuring programmes for the Central, Northern and Western Europe sectors.

At the balance other income and expenses rose by 15.5% year-on-year. They included one-off income and expenses from divestments of € 153 million.

The result from companies measured at equity rose by 22.9% to € 43 million, in particular due to the gratifying development of earnings by hotel companies.

At € 387 million, depreciation and amortisation increased by 5.0% year-on-year.

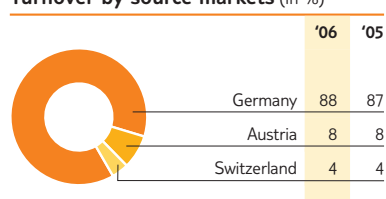
At € 394 million, total earnings by the tourism division were 7.8% up year-on-year. Adjusted for the one-off effects of the initiated restructuring programmes and expenses from other one-off items and the gains on disposals, earnings rose by 9.5% to € 401 million.

Central Europe

Central Europe – Key figures

€ million	2006	2005	Var. %
Turnover	5,803.1	5,749.6	+ 0.9
EBITA by division	89.5	65.9	+ 35.8
<i>Gains on disposals</i>	–	–	
<i>Restructuring expenses</i>	+ 25.6	–	
<i>Other one-off items</i>	–	–	
Underlying EBITA by division	115.1	65.9	+ 74.7
Investments	156.3	109.9	+ 42.2
Headcount (31 Dec)	9,411	9,691	- 2.9

Turnover by source markets (in %)



Turnover and earnings

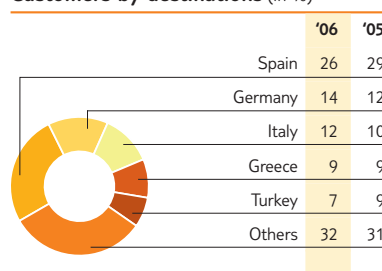
In the Central Europe sector (Germany, Austria, Switzerland as well as airlines Hapag-Lloyd Flug and Hapag-Lloyd Express), the number of customers rose by 2.5% in the 2006 financial year. Turnover grew slightly by 0.9%. While turnover matched 2005 levels in the German and Austrian market, the Swiss market reported slight increases.

On the other hand, earnings rose by 35.8% to € 90 million. Earnings comprised one-off restructuring expenses of € 26 million, incurred in the framework of the efficiency enhancement programme for the German market. Adjusted for these one-off expenses, underlying earnings rose significantly by 74.7%. This was caused in 2006 by improvements in operating airline earnings comprising income from sale-and-lease-back agreements for four aircraft (€ 24 million; previous year: € 18 million). Earnings in Austria were impacted by the unfavourable bookings situation in Turkey and Egypt, while Switzerland reported increases in earnings.

Customer numbers Central Europe

'000	2006	2005	Var. %
Germany	9,557	9,291	+ 2.9
Switzerland	282	276	+ 1.9
Austria	702	717	- 2.0
Central Europe	10,542	10,284	+ 2.5

Customers by destinations (in %)



Summer season

Germany

Germany saw a positive trend in the travel market. Overall demand rose slightly, but continued to focus in particular on products with attractive price/performance ratios. German customers increasingly demanded modular products and seat- and accommodation-only offerings. The portfolio offered by the tour operators of TUI Deutschland comprehensively covered the different market segments. Overall, 9.56 million customers (previous year: 9.29 million) booked TUI travel products, an increase of 2.9% year-on-year. Against the background of the strong price-consciousness in the market, a restrictive capacity policy was initiated in the summer season, deliberately accepting a decline of 2.7% to 5.24 million customers (previous year: 5.39 million) for TUI's brands, which have also included 1-2-Fly and airtours since the summer of 2006. Thanks to an optimisation of capacity and the renewed increase in the number of early bookers, prices were increased in the markets year-on-year.

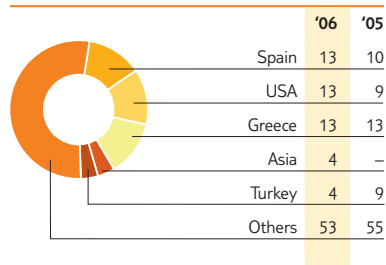
Specialist tour operators

On a like-for-like basis, a total of 4.31 million customers (previous year: 3.90 million) travelled with German specialist tour operators, an increase of 10.6% year-on-year. Wolters, the tour operator offering holiday homes and adventure tours, recorded increases in bookings, in particular in the adventure travel segment. L'tur, market leader in the last-minute segment, suffered from a decline in last-minute capacity caused by the capacity optimisation efforts of classical tour operators. Berge & Meer continued to grow in the direct selling segment.

Distribution

The travel agency activities grouped together in TUI Leisure Travel declined slightly. Around 43% of travel agency turnover was accounted for by Group tour operators. The organisation covered 1,419 travel agencies, 411 of which were Group-owned, with the remainder being franchise partners or agencies under distribution cooperation schemes. In addition, there were 156 L'tur agencies. Besides travel agencies, customers increasingly used the internet.

Customers by destinations (in %)



Summer season

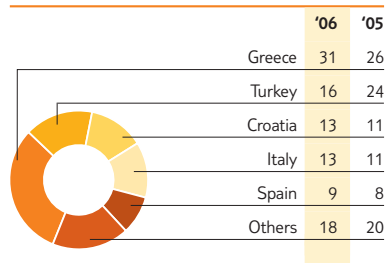
Distribution

Switzerland

The Swiss tour operator market stagnated in 2006. Against this backdrop, TUI Suisse tour operators managed to increase their customer numbers by 1.9%. The Imholz brand, which was rebranded TUI in November 2006, reported a substantial increase in demand, as did 1-2-Fly. FlexTravel maintained its performance constant, both in terms of the number of customers and its 30% share in the overall volume. Direct distribution via the Vögele brand declined again, with margins coming under pressure.

TUI Suisse comprised 67 Group-owned travel agencies, recording a stable performance in a favourable market environment. At 60%, products of Group-owned tour operators accounted for the same proportion of business as in 2005. The proportion of internet-based sales continued to grow.

Customers by destinations (in %)



Summer season

Distribution

Austria

In Austria, the economic situation remained difficult. Customers in the travel market thus continued to be very price-conscious, and the market volume stagnated. The tour operators of TUI Austria recorded an overall satisfactory performance in the financial year under review. The number of customers totalled 702 thousand, declining by 2.0% year-on-year. The positive trend already emerging in 2005 continued, with larger numbers of early bookers. The individual brands showed uneven volume trends, with average prices rising year-on-year in most cases. The TUI brands in the upper price segment and Terra, tour operator for land-based travel, recorded an increase in customer numbers. In contrast, 1-2-Fly, operating in the low-cost segment, and Gulet, specialist tour operator for the eastern Mediterranean, as well as the Magic Life club brand suffered from their strong focus on Turkey and reported year-on-year declines in bookings.

TUI Austria's agency distribution recorded a sound performance. The turnover generated for Group-owned tour operators rose year-on-year, accounting for more than 70% of the total business volume in 2006. The Group-owned distribution network included 91 travel agencies, 47% of which were franchise operations. Cooperation under the TUI TravelStar brand covered another 266 travel agencies. Distribution via new media continued to play a minor role in Austria, but web-based bookings of Austrian tour operators grew from a low level.

Eastern European markets

The eastern European markets showed uneven trends. In Poland, demand in the travel market grew again thanks to strong economic growth. TUI Poland sold more tours than in 2005 and consolidated its market position. The Hungarian travel market also showed a gratifying performance. TUI Hungary grew strongly, particularly in the summer season, and again achieved year-on-year growth in the number of tours sold. TUI Slovenia and TUI Slovakia, of which were both launched in 2004, suffered from overcapacity and price competition in the market and suffered declines as a consequence.

Flight operations Central Europe – Key figures

	Number of operated aircraft*			Seat kilometres (billion)			Seat load factor (%)		
	2006	2005	Abs. var.	2006	2005	Var. %	2006	2005	Var. % points
Hapag-Lloyd Flug	33	37	- 4	18.1	19.8	- 8.3	88.3	87.3	+ 1.0
Hapag-Lloyd Express	18	15	+ 3	4.4	3.9	+ 15.3	79.5	78.5	+ 1.0

* Summer season

Hapag-Lloyd Flug/Hapagfly

The German charter flight market maintained a constant level in the 2006 financial year. Hapag-Lloyd Flug (Hapagfly) benefited above all from the selective channelling of TUI tour operator customers to Group-owned flight capacity. At the same time, the Group changed its fleet structure, reducing its passenger capacity. This resulted in a decline in the number of seat kilometres on offer. The capacity management and customer channelling measures ensured constantly high seat load factors whereby higher average prices could be achieved. The proportion of tour operator customers among passengers was kept almost constant at more than 84%. Hapagfly operated a total of 33 aircraft in the summer season: 32 Boeing 737-800s and one Airbus A 310-300, departing from 18 departure to 42 destination airports.

Hapag-Lloyd Express/HLX

The German market for low-cost airlines again showed very dynamic growth in 2006. This resulted in significant capacity expansions. Hapag-Lloyd Express (HLX) also benefited from this environment and expanded its market position. In the 2006 summer season, HLX operated 18 aircraft: five Boeing 737-500s, eight Boeing 737-700s, three Boeing 737-800s and two Fokker 100s. HLX served eight departure and 14 destination airports in 2006.

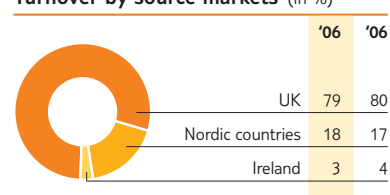
In 2006, the Group decided to integrate the two German airlines Hapag-Lloyd Flug and Hapag-Lloyd Express. They were pooled under the new brand TUIfly.com in January 2007 and will operate under a joint flight schedule in future.

Northern Europe

Northern Europe – Key figures

€ million	2006	2005	Var. %
Turnover	4,794.4	4,809.2	- 0.3
EBITA by division	81.0	102.9	- 21.3
<i>Gains on disposals</i>		- 7.6	
<i>Restructuring expenses</i>	+ 49.5	+ 18.3	
<i>Other one-off items</i>	+ 4.8	-	
Underlying EBITA by division	135.3	113.6	+ 19.1
Investments	89.9	91.2	- 1.4
Headcount (31 Dec)	14,711	16,254	- 9.5

Turnover by source markets (in %)



Turnover and earnings

In the Northern Europe sector (UK, Ireland, Nordic countries as well as airlines Thomsonfly [charter and scheduled flights] and TUIfly Nordic), customer numbers grew by 2.1% in a difficult market environment in the 2006 financial year. This trend was not reflected by turnover, which dropped

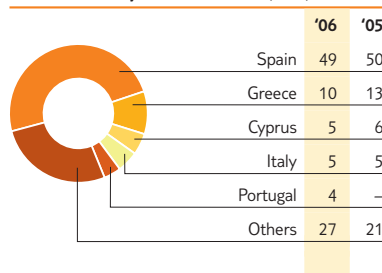
slightly by - 0.3% year-on-year. While the UK and Ireland reported declines in turnover, the Nordic countries continued to expand their business volumes.

Earnings by the Northern Europe sector decreased by 21.3% year-on-year in the 2006 financial year. Both in the completed financial year and in 2005, these earnings comprised restructuring expenses of € 50 million for 2006 and € 18 million for 2005. Furthermore there was a one-off effect from the change of IT-Services at Thomsonfly (€ 5 million). Adjusted for these one-off expenses, underlying earnings totalled € 135 million for the 2006 financial year, an increase in earnings of 19.1% year-on-year. Due to the difficult market conditions, the markets in the UK and Ireland could not match the earnings expectations despite the restructuring measures taken in 2005, which further improved cost structures by means of commission cuts in third-party distribution and process optimisations. The Nordic countries continued the gratifying trend observed in 2005 and again increased their profit contribution.

Customer numbers Northern Europe

'000	2006	2005	Var. %
UK	5,518	5,380	+ 2.6
Ireland	325	328	- 1.0
Nordic countries	1,156	1,150	+ 0.5
Northern Europe	6,999	6,858	+ 2.1

Customers by destinations (in %)



Summer season

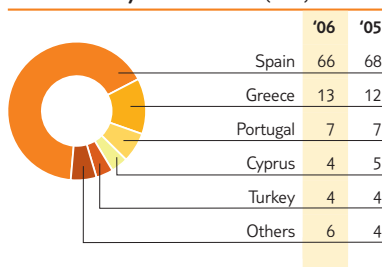
Distribution

UK

In the UK, the travel market showed an unfavourable trend in the course of the year. The unusually good weather and the Soccer World Cup caused restraints in bookings. This also affected TUI UK tour operators. Although the number of customers rose slightly 2.6% year-on-year. The intensification of Group-owned distribution and the expansion of the Thomson website, offering package tours but also modular and seat-only products and hotel accommodation since the second quarter of 2006, had positive effects on the Group's business. Specialist tour operators were particularly successful in marketing skiing tours and the mobile homes offered by Thomson Al Fresco.

TUI UK's agency distribution comprised 708 travel agencies. At 73%, the proportion of products by Group-owned tour operators remained constant year-on-year. The share of web-based bookings in total bookings doubled at the expense of bookings through travel agencies and call centres.

Customers by destinations (in %)



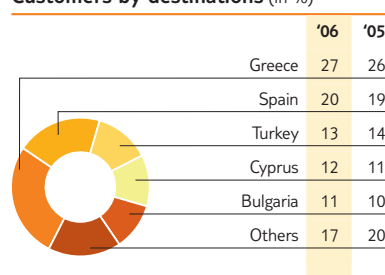
Summer season

Ireland

In Ireland, the travel market environment deteriorated in the course of the year, with late bookings showing the same trend as in 2005. TUI Ireland's tour operators did not succeed in further expanding their market position. At 325 thousand customers, the number of customers travelling with TUI Ireland tour operators declined by 1.0% year-on-year.

Agency distribution in Ireland covered 46 travel agencies, 32 of which were Group-owned and 14 were franchise operations. 87% of tours sold were offerings of Group-owned tour operators. Internet bookings rose significantly.

Customers by destinations (in %)



Summer season

Distribution

Nordic countries

Demand in the Nordic travel market was relatively restrained at the beginning of the year but picked up substantially in the course of the year. This also applied to TUI Nordic's tour operators, keeping their market positions at a constant level. The slight decline in bookings was attributable, inter alia, to the unusually good weather in Northern Europe and the cartoon controversy. Customer numbers grew by 0.5%, virtually matching 2005 levels. At the same time, however, TUI Nordic benefited from a substantial increase in average prices of tours sold so that earnings showed a positive trend.

Agency distribution in the Nordic countries comprised 26 travel agencies exclusively selling tours of Group-owned tour operators. The proportion of bookings via new distribution channels, in particular the internet, continued to rise and accounted for more than 50%.

Flight operations Northern Europe – Key figures

	Number of operated aircraft*			Seat kilometres (billion)			Seat load factor (%)		
	2006	2005	Abs. var.	2006	2005	Var. %	2006	2005	Var. % points
Thomsonfly	47	43	+ 4	27.1	26.3	+ 3.2	87.4	86.9	+ 0.5
Charter				24.6	23.8	+ 3.5	89.7	90.3	- 0.6
Scheduled flights				2.5	2.5	+ 0.6	79.1	72.4	+ 6.7
TUIfly Nordic	5	4	+ 1	4.6	3.5	+ 30.0	93.3	93.0	+ 0.3

* Summer season

Thomsonfly

In the summer season, Thomsonfly operated 47 aircraft: 18 Boeing 757-200s, four Boeing 767-200s, eight Boeing 767-300s, nine Boeing 737-300s, four Boeing 737-500s and four Boeing 737-800s. Thomsonfly departed from 24 British airports to 68 destination airports. 96% of passengers had booked tours with Group-owned tour operators.

TUIfly Nordic

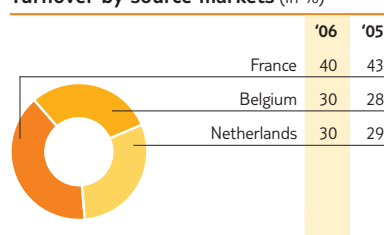
In the 2006 summer season, TUIfly Nordic operated five aircraft: three Boeing 737-800s and two Boeing 757-200s. They departed from 17 airports in Sweden and Norway to 49 destinations.

Western Europe

Western Europe – Key figures

€ million	2006	2005	Var. %
Turnover	2,815.2	2,753.7	+ 2.2
EBITA by division	- 53.7	- 2.6	n. m.
Gains on disposals	- 12.8	- 5.5	
Restructuring expenses	+ 22.8	-	
Other one-off items	+ 18.1	+ 7.4	
Underlying EBITA by division	- 25.6	- 0.7	n. m.
Investments	79.5	232.9	- 65.9
Headcount (31 Dec)	6,504	6,904	- 5.8

Turnover by source markets (in %)



Western Europe turnover and earnings

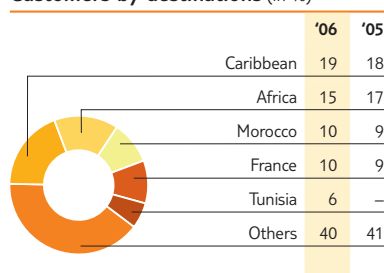
In the Western Europe sector (France, the Netherlands, Belgium and airlines Corsair, TUI Airlines Nederland and TUI Airlines Belgium), the number of customers travelling with tour operators of the sector declined by 0.9% year-on-year. Turnover grew by 2.2% in 2006. In France, turnover declined for market-related reasons, dropping below 2005 levels. In the Netherlands, turnover matched the previous year's level, although the specialist tour operator business was sold in the second quarter. Adjusted for this turnover portion, turnover grew year-on-year due, inter alia, to improvements in the product mix and an expansion of flight operations. In Belgium, turnover rose due to an increase in customer numbers.

Earnings by the sector of € - 54 million fell € 51 million short of 2005 levels. Earnings comprised income from the divestment of the Dutch specialist tour operators (€ 13 million) as well as restructuring expenses (€ 23 million). Furthermore other one-off items from the fleet renewal of the Boeing 747 fleet at Corsair (€ 12 million) and expenses from planned headcount reduction and changes of IT booking systems at Nouvelles Frontières (€ 6 million) had to be considered. In the previous year, earnings had included income from the disposal of the Dutch canal boat business (€ 6 million) as well as one-off costs in connection with the renewal of Corsair's fleet of Boeing 747s (€ 7 million). Adjusted for the one-off effects, underlying earnings in the 2006 financial year were € 25 million down year-on-year. The decline in earnings in 2006 exclusively resulted from the French market. Surplus capacity in flight operations caused margin losses. In addition, oil price-induced increases in the price of aircraft fuel could not be fully rolled over to customers. Nouvelles Frontières and Corsair saw their business additionally curbed by restrained demand. Earnings in the Netherlands grew year-on-year in 2006, even adjusted for the gain on disposal from the divestment of the specialist tour operators. Earnings in Belgium, which comprised income from sale-and-lease-back agreements for two aircraft (5 million €), also rose year-on-year in the financial year under review.

Customer numbers Western Europe

	'000	2006	2005	Var. %
France		1,579	1,685	- 6.3
Netherlands		1,222	1,256	- 2.6
Belgium		1,588	1,489	+ 6.6
Western Europe		4,389	4,430	- 0.9

Customers by destinations (in %)



Summer season

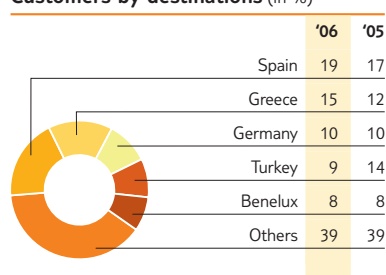
France

Throughout the year, the French travel market suffered from a persistent weakness in demand. French customers showed little interest in travelling due to the Chikungunya fever in Reunion and the good performance of the French national team at the Soccer World Cup but also the poor overall consumer climate. Given these circumstances, customers continued to be very price-conscious. Although Nouvelles Frontières could manage to defend its market position. The substantial declines in bookings for the important long-haul destination Reunion were only partly offset by bookings of the alternative destinations Guadeloupe and Morocco. A total of 1.58 million customers booked their tours with tour operators of the Nouvelles Frontières Group, down 6.3% year-on-year.

Distribution

Agency distribution in France included 218 travel agencies, of which 142 were Group-owned and 76 were franchise operations. They exclusively sold tours offered by tour operator Nouvelles Frontières. TUI brand products were exclusively sold through third-party agencies and agencies of Havas Voyages, which was only acquired in 2005. At 79% of tours sold, travel agencies were the key distribution channel for French tour operators, although the portion of new media was continually rising.

Customers by destinations (in %)



Summer season

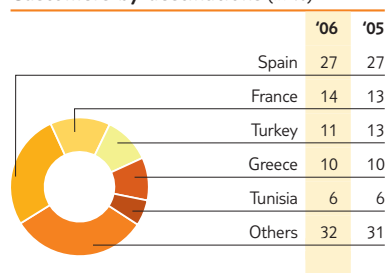
Netherlands

The Dutch travel market showed stagnation whereof direct distribution and internet-based sales grew steadily. In terms of destinations, a shift of trends was observed: bookings of long- and medium-haul destinations declined slightly, while short-haul destinations and above all city trips were very well booked. In this difficult market environment, the tour operators of TUI Nederland recorded uneven trends year-on-year. Thanks to new long-haul destinations, Arke and Holland International grew against the market trend. In the direct selling segment, Kras reported slight declines with constant market shares. The total number of customers of TUI Nederland declined by 2.6% to 1.22 million.

Distribution

Agency distribution by TUI Nederland covered 239 travel agencies, including 125 Group-owned and 114 associated or franchise operations. The decline in the number of Group-owned agencies was attributable to the integration of the Kras agencies into Arke's distribution network. Distribution via the internet and call centres grew once again.

Customers by destinations (in %)



Summer season

Belgium

The Belgian travel market saw off to a slow start. However, demand for tours picked up in all segments in the course of the year. The tour operators of TUI Belgium expanded their market position in this market environment. Jetair, TUI Belgium's main brand, recorded the strongest growth in the city trip and self-drive tour segments. Growth was also achieved in the air tours segment, primarily due to the Jetairfly.com brand which mainly focused on the flight-only business. This was also the market segment showing the highest growth rates by the Sunjets brand in direct distribution which was very successful in 2006. At a total of 1.59 million customers, TUI Belgium's tour operator business climbed by 6.6%.

Distribution

TUI Belgium's agency distribution system included 127 travel agencies, 73 of which were Group-owned and 54 were franchise operations. Web bookings and direct selling matched the still relatively low levels achieved in the Belgian market in 2005.

Flight operations Western Europe – Key figures

	Number of operated aircraft*			Seat kilometres (billion)			Seat load factor (%)		
	2006	2005	Abs. var.	2006	2005	Var. %	2006	2005	Var. % points
Corsair	9	12	- 3	14.6	15.3	- 4.6	80.3	82.5	- 2.2
TUI Airlines Nederland	3	4	- 1	3.4	1.8	+ 85.6	88.0	85.0	+ 3.0
TUI Airlines Belgium	8	7	+ 1	4.8	4.1	+ 15.5	90.6	90.1	+ 0.5

* Summer season

Corsair/Corsairfly

In flight operations, Corsair was faced with strong competition and was additionally impacted by the demand behaviour in the French aviation market. This was partly offset by means of the implementation of ad hoc flights and the leasing out of aircraft. Nevertheless, airline key figures for 2006 declined year-on-year. In 2006, Corsair commissioned two Boeing 747-400s and decommissioned two Boeing 737-400s in the framework of its fleet renewal programme and therefore operated nine aircraft in the course of the summer season, flying to 78 destinations from 11 airports in France.

TUI Airlines Nederland/Arkefly

TUI Airlines Nederland, which had started operation in April 2005 under the Arkefly brand, operated three Boeing 767-300s in the 2006 summer season. In order to meet the rise in demand in the Netherlands in the summer season, additional capacity was chartered.

TUI Airlines Belgium/Jetairfly

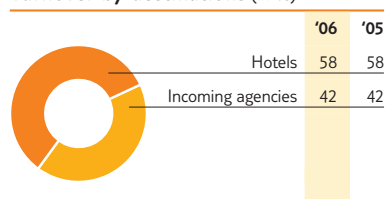
TUI Airlines Belgium, operating under the Jetairfly brand, operated a total of eight aircraft in the 2006 summer season: four Boeing 737-400s, two Boeing 737-800s, one Boeing 767-300 and one Fokker 100.

Destinations

Destinations – Key figures

€ million	2006	2005	Var. %
Turnover	599.0	532.5	+ 12.5
EBITA by division	136.1	185.2	- 26.5
<i>Gains on disposals</i>	–	–	–
<i>Restructuring expenses</i>	–	–	–
<i>Other one-off items</i>	+ 36.6	- 12.0	–
Underlying EBITA by division	172.7	173.2	- 0.3
Investments	202.4	114.3	+ 77.1
Headcount (31 Dec)	13,783	12,866	+ 7.1

Turnover by destinations (in %)



Destinations turnover and earnings

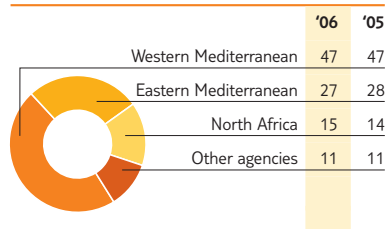
The destinations sector (incoming agencies and hotel companies) generated a 12.5% increase in turnover year-on-year in the 2006 financial year. Both incoming agencies and hotel companies increased their turnover year-on-year.

Earnings by the sector declined by 26.5% to € 136 million in the 2006 financial year. This was attributable to the relatively higher level of earnings in 2005, which had benefited from the first-time consolidation (€ 12 million) of the Toufag Group (three Spanish Robinson Clubs) and one-off expenses due to an impairment on hotel resorts in the Turkey destination (€ 30 million) in 2006, and due to a litigation in the context of a leasing contract for a holiday club resort (€ 6 million). Adjusted for these one-off effects, underlying earnings for the 2006 financial year stood at € 173 million. The weaker performance of the Magic Life Group and considerable restraints in hotel bookings of destinations in Turkey and Egypt adversely affected the earnings. On the other hand, the RIU Group recorded a substantial increase in earnings, nearly offsetting the decline in the performance of Magic Life. Overall earnings by the incoming destinations rose slightly. Although increases in e.g. the cost of fuel and admission tickets

and the VAT rate increase were only partly transferred to customers, the gratifying earnings trend of previous years was continued.

Incoming agencies

Guests by incoming agencies (in %)



TUI's consolidated and associated incoming agencies catered for a total of 10.55 million guests in 36 countries. Their tourism services mainly comprised transfers and excursions but also the handling of cruise ships as well as group and incentive programmes. Business trends varied from one holiday region and time of the season to another but in most cases were restrained year-on-year. In particular, all agencies in eastern Mediterranean countries reported year-on-year declines in customer numbers. The portfolio was further expanded by means of acquisitions in Thailand and Israel as well as the foundation of a new agency in Oman.

Western Mediterranean

In the western Mediterranean, agencies reported uneven customer trends. At 4.33 million guests, TUI España recorded slight declines in guest numbers in all Spanish destinations; its performance in the Caribbean also declined year-on-year. The total number of guests catered for by TUI España Group was 4.56 million, down 3.5% year-on-year. TUI Portugal benefited from the new destination, Cape Verde Islands, and reported 12.7% growth year-on-year to 0.38 million guests.

Eastern Mediterranean

In the eastern Mediterranean, guest numbers declined slightly overall following an excellent performance in 2005. In Greece, TUI Hellas catered for 1.31 million guests, a decline of 5.5% year-on-year. The Turkish agency TUI Türkiye was impacted by the terrorist attacks in Turkey and the resulting decline in guest numbers. At 0.88 million, guest numbers declined by 4.7% year-on-year. Aeolos, the agency in Cyprus, also reported a decline in guest numbers to 0.39 million, down 4.9% year-on-year. TUI Bulgaria catered for 0.27 million guests, a decline of 2.4%.

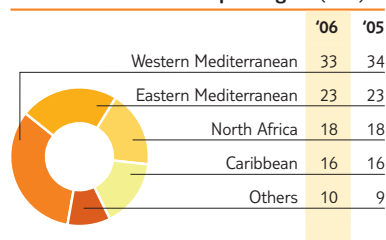
North Africa

In Egypt, the Travco agency managed to increase its guest volume and catered for 0.94 million guests, up 7.1% year-on-year. Tunisie Voyages, operating in Tunisia and Djerba, did not match the high level achieved in 2005 and, at 0.46 million guests, recorded a 6.2% decline year-on-year. In Morocco, Holiday Services again stagnated and catered for 0.17 million guests, down 1.1% year-on-year.

Other agencies

The agencies in the remaining destinations recorded slight increases year-on-year, albeit with regional variations. A total of 1.19 million guests used their services, a year-on-year rise of 2.6%. This growth was partly attributable to the new Asian agency Turismo Asia.

Controlled hotel beds per region (in %)



Hotel companies

The Group's hotel portfolio was grouped together under TUI Hotels & Resorts. It comprises hotel companies in which the Group holds a majority shareholding, joint ventures with local partners, companies in which shareholdings are held and hotels operated under management agreements. In 2006, this portfolio comprised a total of 279 hotels with a capacity of almost 165,000 beds.

TUI Hotels & Resorts recorded a total of 35.7 million overnight stays, 4.6% up year-on-year. At approx. 80%, bed occupancy matched 2005 levels, with individual hotel groups performing differently.

Robinson

Robinson, market leader in the premium segment for club holidays, operated 21 club complexes in nine countries. Overall occupancy was slightly up year-on-year with constant capacity. Declines were reported by individual clubs in Turkey and Austria, while clubs in Kos and Italy reported very good booking levels. The remaining clubs recorded occupancy rates that exceeded the previous year's good levels.

Magic Life

Magic Life, the all-inclusive club brand, operated 17 clubs, all of which were located in the eastern Mediterranean. They defended their positions in Turkey and Egypt in a difficult environment and achieved good occupancy rates on the Greek islands. Given a considerable reduction in capacity, occupancy rates matched 2005 levels.

Dorffhotel

In 2006, Dorffhotel operated two complexes in Austria and one in Germany. Its occupancy rate rose slightly year-on-year while capacity was reduced to some extent.

RIU

In 2006, RIU, the second largest hotel chain in Spain, continued its successful business performance of 2005. Its hotel portfolio comprised 109 hotels, including 29 hotels in long-haul destinations Mexico, the Caribbean and the US. Demand for hotels in the Bahamas and Cape Verde Islands developed particularly well. Occupancy rates also rose in the hotels in Spain, while demand for Madeira was also very good. Overall, RIU hotels recorded a slight rise in capacity and an increase in occupancy rates year-on-year.

Grupotel

Grupotel, another Spanish hotel company, had 33 hotels. Twenty-two of these hotels were located on Majorca, seven on Menorca and four on Ibiza. With a slight reduction in capacity, Grupotel recorded a sound increase in its occupancy rate year-on-year.

Grecotel

Grecotel, the leading hotel company in Greece, operated a portfolio of 21 hotels. Seven of these hotels were located in mainland Greece and 14 in Greek islands. Except Korfu occupancy was slightly down year-on-year, with a considerable increase in capacity.

Iberotel

Iberotel operated 23 hotels. Seventeen of these hotels were located in Egypt, four in Turkey, one in Dubai and one in Sicily respectively. While hotel capacity was considerably increased, occupancy rates fell slightly year-on-year overall. The occupancy rates of Iberotels in Turkey were adversely affected by the terrorist attacks in 2005.

Other hotel companies

The Nordotel, Atlantica, Gran Resort and Sol y Mar hotel chains, whose facilities were mainly marketed in the UK and Scandinavia, operated a total of 34 hotels in the Mediterranean and two hotels in Austria. Hotels on Cyprus and mainland Spain showed good and steady levels of demand, while hotels on the Spanish islands recorded slight decreases from a high level.

Other Tourism

Other Tourism – Key figures

€ million	2006	2005	Var. %
Turnover	72.2	251.5	- 71.3
EBITA by division	140.8	13.8	n. m.
<i>Gains on disposals</i>	- 140.5	-	
<i>Restructuring expenses</i>	+ 2.7	-	
<i>Other one-off items</i>	-	-	
Underlying EBITA by division	3.0	13.8	- 78.3
Investments	14.6	18.2	- 19.8
Headcount (31 Dec)	-	4,783	-

The Other Tourism sector comprised the business travel segment and TUI InfoTec's IT services companies. In January 2006, the business travel activities pooled under TQ3 Travel Solutions Management Holding GmbH were sold to the Dutch BCD Holdings N.V. The transaction was closed on 31 March 2006. In September 2006, a majority of 50.1% in TUI InfoTec was sold to the Indian software company Sonata Software Limited. The transaction was completed on 24 November 2006.

Turnover by the sector fell substantially short of 2005 levels since the profit contribution by the business travel operations was no longer generated. Earnings rose considerably to € 141 million. They comprised restructuring expenses of € 3 million and the gain on disposal from the divestment of the business travel activities of a total of € 151 million, generated in the first half of 2006. The divestment of business shares in TUI InfoTec resulted in a loss on disposal of € 11 million.



Shipping

Last year, TUI successfully completed the operative integration of CP Ships, acquired at the end of 2005, into the Hapag-Lloyd organisation. During the integration process, synergy effects were already achieved which far exceeded expectations. With the continuation of this trend and the non-recurrence of integration costs, a significant improvement in earnings is expected in the next few years.

Shipping Decline in container shipping. Integration of CP Ships successfully completed.

In the 2006 financial year, the shipping division comprised the container shipping and cruise business of the Hapag-Lloyd Group. Overall, the business trend in the 2006 financial year did not continue the extraordinarily good performance of previous years. Container shipping was characterised by a worldwide cyclical low in 2006 triggered by a strongly competitive market environment. In contrast, the cruise market in the German-speaking region showed a positive trend.

Turnover and earnings in shipping

A year-on-year comparison of figures for the shipping division is of limited use. This is due to the acquisition of CP Ships in the fall of 2005, which was only included in consolidated financial statements for 2005 for the period from 25 October 2005 until 31 December 2005.

Shipping – Key figures

€ million	2006	2005	Var. %
Turnover	6,254.0	3,834.2	+ 63.1
Cost of materials	5,317.4	2,966.9	+ 79.2
Personnel costs	480.3	260.7	+ 84.2
Other income and expenses	- 252.3	- 157.1	- 60.6
At equity results	7.5	4.1	+ 82.9
EBITDA	211.5	453.6	- 53.4
Depreciation less reversals of depreciation	317.7	134.3	+ 136.6
EBITA by division	- 106.2	319.3	n. m.
Gains on disposals	-	-	
Restructuring expenses	+ 66.4	-	
Other one-off items	+ 47.4	+ 3.2	
Underlying EBITA by division	7.6	322.5	- 97.6
Investments	190.3	508.6	- 62.6
Headcount (31 Dec)	8,571	9,077	- 5.6

Due to the integration of CP Ships into Hapag-Lloyd and the associated growth in transport volumes, turnover in the shipping division rose substantially by 63.1% in the 2006 financial year. At € 6.1 billion and an increase of 65.3%, container shipping accounted for the largest portion of turnover by the division. Hapag-Lloyd Kreuzfahrten generated turnover of € 0.2 billion, up 8.5% year-on-year.

In the shipping division, the cost of materials rose by 79.2% to € 5,317 million. This cost increase was primarily driven by the first-time inclusion of CP Ships for a full year as well as the increase in bunker oil costs and land-based logistics costs. As a result, the cost of materials ratio also rose by 7.6 percentage points to 85.0% year-on-year. The considerable increase

in personnel costs of 84.2% to € 480 million reflected a cost increase attributable to changes in consolidation as well as restructuring expenses for the CP Ships integration process.

The balance of other income and expenses fell by 60.6% to € - 252 million. On the other hand, the result from companies measured at equity rose by 82.9% to € 8 million.

Depreciation and amortisation rose by 136.6% to € 318 million due to the expansion of the Group-owned ship and container fleet caused by the acquisition of CP Ships.

Earnings by the shipping division totalled to € - 106 million (previous year: € 319 million), a considerable decline year-on-year. Container shipping contributed € - 114 million to these earnings, with Hapag-Lloyd Kreuzfahrten accounting for € 8 million. Adjusted for the expenses for the integration of CP Ships slightly positive earnings of € 8 million could be achieved.

Container shipping

Container shipping – Key figures (incl. CP Ships)

€ million	2006	2005	Var. %
Turnover	6,093.7	3,686.5	+ 65.3
EBITA by division	- 114.1	315.1	n. m.
<i>Gains on disposals</i>	–	–	
<i>Restructuring expenses</i>	+ 66.4	–	
<i>Other one-off items</i>	+ 47.4	+ 3.2	
Underlying EBITA by division	- 0.3	318.3	n. m.

Integration process

The integration of CP Ships, the container shipping company acquired in October 2005, into Hapag-Lloyd proceeded faster than originally planned. One year after the acquisition, the operative business of CP Ships was fully integrated into Hapag-Lloyd. The centrepiece was the expansion of Hapag-Lloyd's organisational structure and information technology to cover CP Ships' business. The operative integration of CP Ships' services was implemented in two stages. The first stage related to all Trans-Atlantic services, accounting for around half the entire cargo volume of CP Ships. The second stage covered all other services. At the end of the third quarter, all former CP Ships' services were fully integrated into Hapag-Lloyd and have since been operated under the Hapag-Lloyd brand name. In addition, all ships and containers of CP Ships were integrated into Hapag-Lloyd's fleet. The optimisation of the services network, which was substantially expanded due to the acquisition of CP Ships, was also completed according to schedule in the third quarter.

New reporting structure

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

figures for the 2005 reference periods were statistically determined in order to obtain a basis for comparisons.

Turnover and earnings

In the 2006 financial year, turnover by container shipping rose substantially by 65.3% to € 6.1 billion. This primarily resulted from the integration of CP Ships into Hapag-Lloyd. In addition, the transport volume grew by 2.6% year-on-year on a like-for-like basis to 5,004 standard containers (TEU). However, freight rates in 2006 declined by 2.7% on average in all trade lanes year-on-year.

Earnings did not develop in line with turnover growth. The decline in earnings to € - 114 million reflected the development of freight rates and additionally charges due to cost increases. In the financial year under review, oil price-dependent bunker costs remained at a high level. High charter rates due to capacity shortages in certain vessel sizes and increased costs of landside logistic were also impacting. Freight rates showed declining trends on most routes. In the first half of the year, Hapag-Lloyd reported growth in transport volumes, but as of the third quarter growth came to a halt. Earnings comprised one-off integration costs consisting of restructuring expenses (€ 66 million: lumpsum compensations and vacancy risks) and current integration costs (€ 48 million: closure of agencies and IT restructuring). For the 2006 financial year, expenses totalling € 114 million impacted earnings. Adjusted for the expenses for the above-mentioned integration costs, earnings were almost in balance.

Development in the trade lanes

Due to the acquisition of CP Ships in 2005, Hapag-Lloyd is one of the world's five largest container lines in capacity terms. Hapag-Lloyd defended this position even in the difficult 2006 financial year, characterised by an adverse market environment and integration costs. As at 31 December 2006, Hapag-Lloyd had a fleet of 138 container ships with a joint slot capacity of 467,000 TEU. As a founding member of the Grand Alliance, it was incorporated into the route network of one of the world's leading consortia in international liner shipping. Following the acquisition of CP Ships and the exit of a competitor due to progressive market consolidation, Hapag-Lloyd accounted for the largest portion of the capacity jointly used at a tonnage share of 37% in 2006.

The volumes shipped by Hapag-Lloyd showed different trends in the five trade lanes in the 2006 financial year. Overall, however, transport volumes rose by 2.6% to 5.0 million TEU year-on-year. Nevertheless, this growth did not match the 8.8% growth in the overall market for container transportation (source: Global Insight, November 2006). Positive volume growth effects were caused by the integration of CP Ships' services and the expansion of transport capacity due to the commissioning of seven newly built vessels with a slot capacity of 8,750 TEU for one vessel and 4,250 TEU for six vessels.

Transport volumes Hapag-Lloyd (incl. CP Ships)

'000 TEU	2006	2005*	Var. %
Far East	1,183	1,029	+ 15.0
Trans-Pacific	948	819	+ 15.8
Atlantic	1,391	1,566	- 11.2
Latin America	791	828	- 4.5
Australasia	690	633	+ 8.9
Total	5,004	4,876	+ 2.6

* Under comprehension of CP Ships for the entire financial year 2005

Freight rates Hapag-Lloyd (incl. CP Ships)

US dollars/TEU	2006	2005*	Var. %
Far East	1,223	1,325	- 7.7
Trans-Pacific	1,485	1,572	- 5.5
Atlantic	1,659	1,545	+ 7.4
Latin America	1,449	1,530	- 5.3
Australasia	1,223	1,304	- 6.2
Ø for all trade lanes	1,430	1,469	- 2.7

* Under comprehension of CP Ships for the entire financial year 2005

Far East

At almost 24%, transport between Europe and Asia accounted for the second largest proportion of Hapag-Lloyd's business. The market volume in this trade lane grew by 12.6% in 2006. The volume of transports from Asia to Europe rose more than twice as strongly as in the opposite direction. This was mainly due to the persistently high export volume in China, which had a positive effect on transports from Asia to Europe, and the ongoing relocation of European production sites to Asian countries. The imbalance of transports rose due to the differences in growth rates in the individual routes, with Hapag-Lloyd managing to limit the number of no-load transports by optimising the rotation of the container fleet.

At 15.0%, the transport volume of Hapag-Lloyd grew faster than the market and rose to 1,183,000 TEU in this trade lane. However, strong competition resulted in declines in freight rates of 7.7%, in particular on the routes from Asia to Europe.

Trans-Pacific

The transport volume in the Trans-Pacific trade lane grew by 10.7% in 2006. Transport growth on the routes from Asia to North America exceeded transport growth in the opposite direction. Overall growth as well as volume growth in one direction was attributable to economic growth in China and the associated exports of low-price consumer goods due to the increase in demand for imports in the US.

In the Trans-Pacific trade lane, Hapag-Lloyd's business growth outperformed the market. The transport volume grew by 15.8% to 948,000 TEU. The imbalance of transports remained relatively stable due to the almost identical growth rates of transports between the two continents. The intensification of competition in the container transport market caused a decline in freight rates of 5.5%.

Atlantic

At 28% of total business, the Atlantic trade lane is Hapag-Lloyd's highest-volume trade lane. It links North America and Europe. In the 2006 financial

year, the market volume in this trade lane grew by 4.8%. This was primarily supported by the high level of demand for European products in North America. Transports from Europe to North America rose slightly more than those in the opposite direction. As of mid-2006, the trade lane was affected by significant restructurings. These included new services which intensified the competitive pressure and therefore impacted the previously positive development of rates and volumes.

At a transport volume of 1,391,000 TEU, Hapag-Lloyd recorded a decline of 11.2%. This decrease was caused by the expected volume losses due to the integration of CP Ships. However, competitive pressure also rose due to the availability of additional container transport capacity in the market. Average freight rates benefited from increases in rates in the first half of 2006, in particular on the routes between northern Europe and North America, and rose by 7.4% year-on-year in the financial year under review. Rate increases were particularly achieved in the first half of the year.

Latin America

In the Latin America trade lane, primarily linking South America with North America and Europe, the market grew by 7.0%. Transports from Europe to Latin America grew almost twice as strongly as those in the opposite direction – unlike the previous year. This was linked with a reduction of the imbalance of transports in 2006.

Hapag-Lloyd's transport volume in the Latin America trade lane totalled 791,000 TEU, down 4.5% year-on-year. This decline was caused by the decrease in transport volumes from Latin America to Europe. Freight rates dropped 5.3% below 2005 levels.

Australasia

The Australasia trade lane covered the inner-Asian services and the services linking the Far East and the Indian subcontinent with Australia and New Zealand. Transport volumes in this market rose by 8.5% in 2006. This was largely attributable to strong growth in inner-Asian container transports.

In the Australasia trade lane, Hapag-Lloyd generated sound growth of 8.9% to 690,000 TEU, with volume growth in the second half of the year far exceeding growth in the first half. Freight rates declined by 6.2%. The decrease mainly resulted from the increase in the proportion of inner-Asian transports, characterised by shorter routes and thus lower average freight rates.

Hapag-Lloyd Kreuzfahrten

Hapag-Lloyd Kreuzfahrten – Key figures

€ million	2006	2005	Var. %
Turnover	160.3	147.7	+ 8.5
EBITA by division	7.9	4.0	+ 97.5
Gains on disposals	–	–	
Restructuring expenses	–	–	
Other one-off items	–	–	
Underlying EBITA by division	7.9	4.0	+ 97.5
Utilisation (in %)	73.5	68.3	+ 7.6

Turnover and earnings

In the 2006 financial year, Hapag-Lloyd Kreuzfahrten again recorded a positive trend, winning new customer groups and thus increasing the number of customers. The average length of cruises also rose. Due to the premium portfolio, average turnover per day also continued to rise year-on-year. At € 160 million, total turnover was 8.5% up year-on-year.

Hapag-Lloyd Kreuzfahrten increased its earnings by 97.5% year-on-year to € 8 million. Earnings were impacted by the increase in fuel costs and an unscheduled dock period of 'Bremen'.

Business trend

The positive trend of the German cruise market continued in 2006, primarily in the volume segment of the 3- and 4-star categories. In 2006, no new vessels in the luxury segment were launched in the German market.

Hapag-Lloyd Kreuzfahrten has established itself in the German market in the premium and luxury segments in particular as a provider of lifestyle and expedition tours. In the 2006 financial year, its fleet consisted of four cruise ships, two of which were owned and two chartered. The flagship was the 5-star-plus vessel 'Europa'. It was awarded this category by the Berlitz Cruise Guide for the seventh time in succession and is mainly operated on world tours. The 'Columbus', a four-star vessel, also cruises the world's seven seas and, moreover, is the only ocean-going cruise liner capable of cruising the Great Lakes in North America. The 'Hanseatic' is used for cruises to the Arctic and Antarctic. It is the world's only 5-star expedition vessel with the highest Arctic class. The 'Bremen', a four-star vessel also awarded the highest Arctic class, travels to similar destinations.

In the 2006 financial year, utilisation of three of the vessels rose year-on-year. Since the 'Bremen' had an unscheduled time in a dock its utilisation fell slightly short of 2005 levels. Utilisation of all ships was 73.5%, 5.2 percentage points up year-on-year.

Discontinuing Operations **Divestment of discontinuing operations completed.**

Due to the intention to sell special logistics and trading, these activities had to be classified as discontinuing operations according to IFRS 5. The remaining activities in the two sectors were already divested in the 2005 financial year and at the beginning of 2006, respectively. Therefore the TUI Group no longer holds any discontinuing operations.

Special logistics

In the course of the concentration of the former logistics division on shipping, the special logistics operations were divested in several steps in the 2004 and 2005 financial years. This process was finalised with the completion of the divestment of VTG AG's rail and tank container logistics business in December 2005. These operations were bought by the Luxembourg-based Compagnie Européenne de Wagons, a shareholding of the US investment company WL Ross & Co. LLC. The rail and tank container logistics business was included in consolidation until 14 December 2005. Earnings of € 5 million mainly resulted from subsequent income.

Special logistics – Key figures

€ million	2006	2005	Var. %
Turnover	–	415.4	–
EBITA by division	5.3	158.6	- 96.7
Investments	–	33.0	–
Headcount (31 Dec)	–	–	–

Trading

The trading sector comprised the US steel service companies of the PNA Group. On 14 February 2006, TUI AG sold its indirect 100% interest in the US steel service companies of the PNA Group. With the closing of this transaction on 9 May 2006, which was part of the divestment programme, the concentration of the TUI Group on the two core business areas of tourism and shipping was completed according to schedule. Including the financial liabilities of the companies, taken over by the buyer, the transaction was worth around € 0.3 billion. The trading sector was included in consolidated financial statements until 9 May 2006.

PNA Group – Key figures

€ million	2006	2005	Var. %
Turnover	401.0	1,002.9	- 60.0
EBITA by division	17.1	67.3	- 74.6
Investments	2.0	5.4	- 62.9
Headcount (31 Dec)	–	1,189	–

Earnings Group earnings impacted by impairments of goodwill.

The development of the consolidated profit and loss statement was determined by the business trend in tourism and shipping, the Group's core businesses, and the first-time consolidation of CP Ships for a full financial year. Group earnings were additionally impacted by the impairments of goodwill effected in 2006 for the activities in the British, Irish and French markets as well as the hotel company Magic Life.

Development of Group earnings

The preliminary purchase price allocation in the 2005 consolidated financial statements – due to the acquisition of CP Ships – was finalised in October 2006, resulting in minor effects on the Group's profit and loss statement. In order to enhance the comparability of figures, the figures for 2005 were restated accordingly. A corresponding explanation and reconciliation is provided in the section on 'Accounting principles' in the notes on the consolidated financial statements.

Consolidated profit and loss statement

€ million	2006	2005	Var. %
Turnover	20,514.6	18,201.3	+ 12.7
Other income	749.0	603.8	+ 24.0
Change in inventories and other own work capitalised	+ 10.7	- 3.2	n. m.
Cost of materials and purchased services	15,495.5	12,900.3	+ 20.1
Personnel costs	2,435.4	2,304.2	+ 5.7
Depreciation and amortisation	667.4	504.9	+ 32.2
Impairments	763.8	18.3	n. m.
Other expenses	2,517.4	2,489.5	+ 1.1
Financial income	226.7	185.0	+ 22.5
Financial expenses	408.1	421.9	- 3.3
Result from companies measured at equity	50.5	39.1	+ 29.2
Earnings before taxes	- 736.1	386.9	n. m.
Income taxes	127.6	86.8	+ 47.0
Result from continuing operations	- 863.7	300.1	n. m.
Result from discontinuing operations	17.1	196.2	- 91.3
Group profit for the year	- 846.6	496.3	n. m.
- attributable to shareholders of TUI AG	- 893.3	458.0	n. m.
- minority interests	46.7	38.3	+ 21.9

Turnover

Turnover comprised the turnover generated by the tourism and shipping divisions and central operations, covering the Group's real estate companies and the remaining industrial activities besides TUI AG. At € 20.5 billion, Group turnover rose by 12.7% year-on-year. A breakdown of turnover and the development of turnover is presented in the section 'Group turnover and earnings'.

Other income

Other income primarily comprised gains on the disposal of fixed and current assets, income from supplementary transactions, foreign exchange gains, income from cost reimbursements and income from rental and leasing contracts as well as license agreements.

At € 749 million, Other income increased by 24.0% year-on-year. It included the gains on disposals from the divestment of the business travel activities effected in the 2006 financial year (€ 151 million), TUI Nederland's specialist tour operators (€ 12 million) and the divestment of the majority interest in Wolf GmbH (€ 35 million). Additional income was generated from sale-and-lease-back contracts for a total of six aircraft, the sale of an administrative building in the Netherlands and income in the real estate segment from the sales contract for 'Schacht Konrad' concluded back in the 1980s.

Change in inventories and other own work capitalised

The change in inventories and other own work capitalised of € 11 million mainly resulted from a relatively constant inventory in work in progress and finished products accompanied by a concurrent positive development of other own work capitalised.

Cost of materials and purchased services

The cost of materials and purchased services encompassed the cost of raw materials including fuel and supplies, purchased goods and services. In tourism, these costs mainly related to the cost of third-party services such as rental and lease expenses for hotels and the cost of flight and other transport services. In the shipping division, the cost of purchased services primarily related to the cost of third-party container transport, port and terminal costs as well as charter, rental and operating lease expenses for ships and containers.

The cost of materials and purchased services rose considerably by 20.1% to € 15,496 million. This increase resulted from the first-time inclusion of CP Ships business volume in the consolidated financial statements for a full financial year. In tourism and shipping, another major reason for the cost increase was the high average energy costs for aircraft fuel and bunker oil, causing a corresponding cost increase. As a result, the cost of materials ratio stood at 75.5%, an increase of 4.6 percentage points.

Personnel costs

Personnel costs include expenses for wages and salaries, social security contributions as well as pension costs and benefits. They rose by 5.7% to € 2,435 million year-on-year. Besides the effect from the full-year inclusion of CP Ships, both the tourism and the shipping division recorded an adverse effect due to expenses for personnel adjustment measures in the framework of the restructuring programmes.

Depreciation and amortisation

Depreciation and amortisation included the depreciation of property, plant and equipment and the amortisation of other intangible assets as well as write-downs of investment property. At € 667 million, it rose 32.2% on the previous year. This was essentially due to the expansion in shipping.

Impairments

Impairments comprised impairments of goodwill and of other intangible assets, property, plant and equipment and investment property. In the 2006 financial year, impairments totalled € 764 million.

At € 710 million, the largest proportion related to impairments of goodwill in the tourism division. More specifically, impairments of € 480 million were required for the Northern Europe sector in the British and Irish markets, € 210 million in the Western Europe sector for the French market and € 20 million in the destinations sector for the investment in Magic Life.

In addition, impairments of € 54 million were required for intangible assets and property, plant and equipment. In particular, they related to Magic Life and Iberotel hotel complexes in Turkey by € 30 million.

Other expenses

The main items subsumed under Other expenses were: commissions for tourism services, selling and advertising expenses, rental and lease expenses, administrative expenses including contributions, charges and fees, expenses for financial and monetary transactions and other taxes.

Other expenses increased by 1.1% to € 2,517 million. Expenses included an amount of € 11 million for a loss from the sale of the majority interest in TUI InfoTec and a foreign currency exchange loss due to capital adjustments at subsidiaries of € 65 million.

Financial income and financial expenses

Financial income of € 227 million and financial expenses of € 408 million arose in the 2006 financial year. The net financial result was € - 181 million. The financial result included the interest result, net income from investments and marketable securities and the result from the change in the market value of derivative financial instruments.

At € - 226 million, the interest result dropped by 11.1% year-on-year. The decline in the interest result was attributable to the first-time inclusion of the bonds issued in 2005 – for financing the acquisition of CP Ships – for a full financial year and the increase in the average base interest level. Overall the financial result increased year-on-year due to a positive development in value of the non-hedged derivative instruments.

Result from companies measured at equity

The result from companies measured at equity comprised the pro-rated net profit for the year of the associated companies and joint ventures as well as any impairment of goodwill of these companies, if required. At € 51 million, it rose by 29.2% on the previous year due to an increase in the earnings of the companies in the destinations sector measured at equity.

Taxes on income

Income taxes included taxes on profits from ordinary business activities of the continuing operations. They totalled € 128 million, comprising effective income taxes of € 114 million and deferred income taxes of € 14 million. The disproportionate increase in the tax rate resulted from the changed relationship between the profit contributions by tourism and shipping, the Group's core businesses. Due to the tonnage tax unrelated to earnings charged in the shipping division, the reduction in the tax burden of previous years turned into an additional burden due to the negative earnings posted by shipping in 2006.

Result from discontinuing operations

The result from discontinuing operations as defined by IFRS 5 amounted to € 17 million and comprised income tax expenses of € 12 million. It totalled € 29 million before income tax. Earnings comprised an amount of € 6 million from the trading sector sold in the second quarter as well

as subsequent income from the rail logistics and energy sectors sold in previous years.

Group profit for the year

At € - 847 million, Group earnings were clearly negative, primarily due to the impairments of goodwill. Disregarding this factor, earnings still showed a negative variance which resulted from the cyclical impact in the shipping division and the decline in earnings from discontinuing operations, while the tourism division recorded a slight increase in earnings.

Minority interests

Minority interests in Group profit for the year totalled € 47 million and almost exclusively related to companies in the tourism division. The year-on-year increase resulted from the sound business performance of the RIU Group, which accounted for the largest proportion of earnings.

Earnings per share

The interest in Group profit for the year attributable to TUI AG shareholders (after deduction of minority interests and dividends on the hybrid capital) declined to € - 919 million. In relation to the weighted average number of shares of 250,742,835 units, basic earnings per share amounted to € - 3.66 (previous year: € 2.29). Due to the negative Group profit for the convertible bond issued in November 2003, there was no dilution effect to consider. In the previous year, the diluted earnings per share stood at € 2.17.

Development of TUI AG earnings

The annual financial statements of TUI AG for the 2006 financial year were prepared in accordance with the provisions of the German Commercial Code and audited by the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. They were published in the Federal Gazette and deposited at the commercial registers of the district courts of Berlin-Charlottenburg, HRB 321, and Hanover, HRB 6580. They have been made permanently available on the internet at www.tui-group.com and may be requested in print from TUI AG.

Profit and loss statement of TUI AG

€ million	2006	2005	Var. %
Turnover	303.7	166.8	+ 82.1
Other operating income	972.0	730.1	+ 33.1
Cost of materials	155.4	110.5	+ 40.6
Personnel costs	75.9	121.6	- 37.6
Depreciation and amortisation	320.3	98.1	+ 226.5
Other operating expenses	1,556.6	718.1	+ 116.8
Net income from investments	3,672.3	2,433.2	+ 50.9
Write-down of investments	2,549.0	1,708.4	+ 49.2
Interest result	- 183.2	- 192.8	+ 5.0
Profit on ordinary activities	107.6	380.6	- 71.7
Taxes	4.0	- 9.7	n. m.
Net profit for the year	103.6	390.3	- 73.5

The earnings situation of TUI AG, the Group's parent company, is mainly determined by the development of earnings of its Group companies, either directly associated with it via profit and loss transfer agreements or distributing their profits to it based on corresponding resolutions. The development of the items of TUI AG's profit and loss statement was also strongly affected by the restructuring of the shipping division implemented in 2006 in the wake of the integration of CP Ships.

<i>Turnover and other operating income</i>	In the 2006 financial year, TUI AG's turnover rose by 82.1% to € 304 million. This turnover almost exclusively related to income from leasing aircraft, container ships and containers to Group companies. Other operating income rose by 33.1% to € 972 million. It mainly included book profits from the disposal of financial assets and property, plant and equipment, foreign exchange gains from currency transactions and earnings from the reversal of provisions and value adjustments.
<i>Expenses</i>	As far as expenses are concerned, the cost of materials rose by 40.6% to € 155 million. This was caused by an increase in expenses for the leasing of aircraft and first-time maintenance costs for the dry dock period of container ships. In the light of a reduction in pension expenses, personnel costs declined by 37.6% to € 76 million. Depreciation and amortisation rose significantly. At € 320 million, it was 226.5% up year-on-year. The rise in the depreciation level was partly attributable to the internal transfer of the Group-owned container ship fleet and container pool to TUI AG implemented in 2006. Other operating expenses rose by 116.8% to € 1,557 million. They included the cost of financial and monetary transactions, fees, charges and other administrative costs arising from TUI AG's corporate centre functions as well as expenses from the measurement of financial instruments and provisioning for investment risks. The increase was primarily attributable to the earnings to be paid into an interim holding in connection with the change in the legal structure of the shipping division in 2006.
<i>Investments</i>	At € 3,672 million, net income from investments was substantially up on the previous year's level. It comprised income from investments as well as profits and losses from profit and loss transfer agreements with associated operative companies of € 115 million. At € 3,426 million, it mostly comprised income transferred from an interim holding and resulting from a restructuring of investments in shipping. Since TUI AG's investment income primarily resulted from relations with consolidated Group companies, it only affected Group earnings to a minor extent.
<i>Write-down of financial investments</i>	At € 2,549 million, write-downs of financial investments rose significantly year-on-year. They comprised write-downs of shareholdings in affiliated companies in the tourism division which had to be impaired to the lower fair value in accordance with commercial law provisions. This primarily affected investments in the UK, Ireland and France. In addition, write-downs of financial investments largely related to value adjustments in the shipping division, which had arisen in connection with the restructuring of the division in the 2006 financial year.
<i>Interest result</i>	At € - 183 million, the interest result was 5.0% up year-on-year due to an increase in interest income from the internal financing of associated companies.
<i>Profit for the year</i>	For the 2006 financial year, TUI AG posted a net profit for the year of € 104 million. The 73.5% year-on-year decline was mainly attributable to the decline in income from investments of operative companies, in particular due to the business trend in shipping. Taking account of an amount of € 2 million profit carried forward and the donation of revenue reserve of € 52 million, profit available for distribution amounted to € 54 million, which should be carried forward to new account.

Net Assets Decrease in balance sheet total. Equity plus non-current financial liabilities covered 68% of fixed assets.

In the 2006 financial year, assets declined considerably due to divestments and the revaluation of goodwill. These changes, representing structural changes of the Group affected both the balance sheet total and the asset and capital structure of the Group and TUI AG.

Asset situation of the Group

The Group's balance sheet total dropped by 15.4% to € 13,014 million. This decline was mainly attributable to changes in the group of consolidated companies and impairments of goodwill. The changes in consolidation were largely caused by the disposals in connection with the divestment of steel trading in the US, business travel activities, Wolf GmbH and TUI InfoTec GmbH.

In the course of the final purchase price allocation in October 2006 – in the context with the acquisition of CP Ships in the fall 2005 – minor effects on the Group's balance sheet items arose. In order to enhance the comparability of figures, the figures for the 2005 financial year were restated. A corresponding explanation and reconciliation is provided in the section on 'Accounting principles' in the notes on the consolidated financial statements.

Development of the Group's asset structure

€ million	31 Dec 2006	31 Dec 2005	Var. %
Fixed assets	9,506.1	11,167.7	- 14.9
Non-current receivables	635.1	715.4	- 11.2
Non-current assets	10,141.2	11,883.1	- 14.7
Inventories	129.3	150.4	- 14.0
Current receivables	1,883.4	2,027.0	- 7.1
Cash and cash equivalents	688.7	599.2	+ 14.9
Assets held for sale	171.4	714.7	- 76.0
Current assets	2,872.8	3,491.3	- 17.7
Assets	13,014.0	15,374.4	- 15.4
Equity	3,010.3	4,366.8	- 31.1
Liabilities	10,003.7	11,007.6	- 9.1
Equity and liabilities	13,014.0	15,374.4	- 15.4

Structural ratios

Non-current assets accounted for 77.9% of total assets, compared with 77.3% in the previous year. Fixed assets totalled 93.7% of non-current assets; they declined by 14.9% to € 9,506 million, above all due to the impairment of goodwill. The capitalisation ratio (ratio of fixed assets to total assets) rose slightly to 73.0%, following 72.6% in 2005.

Vertical structures

Current assets accounted for 22.1% of total assets, compared with 22.7% in 2005. The Group's liquid funds were managed with a view to securing the Group's current financial requirements and optimising its interest structures. At the balance sheet date, they totalled € 689 million and were 14.9% up year-on-year. Liquid funds accounted for 5.3% of total assets, compared with 3.9% in 2005.

Horizontal structures

At the balance sheet date, the ratio of equity to non-current assets was 29.7%, compared with 36.7% in 2005. The ratio of equity to fixed assets was 31.7%, following 39.1% in the previous year. The ratio of equity plus non-current financial liabilities to fixed assets was 68.2%, compared with 67.9% in 2005.

Structure of the Group's non-current assets

€ million	31 Dec 2006	31 Dec 2005	Var. %
Goodwill	3,134.8	3,836.2	- 18.3
Other intangible assets	604.9	863.5	- 29.9
Investment property	95.7	90.2	+ 6.1
Property, plant and equipment	5,145.7	5,882.2	- 12.5
Companies measured at equity	407.7	372.7	+ 9.4
Financial assets available for sale	117.3	122.9	- 4.6
Fixed assets	9,506.1	11,167.7	- 14.9
Other receivables and assets	359.5	416.0	- 13.6
Deferred income tax claims	275.6	299.4	- 7.9
Non-current receivables	635.1	715.4	- 11.2
Non-current assets	10,141.2	11,883.1	- 14.7

Development of the Group's non-current assets

Goodwill

At € 3,135 million, goodwill declined by 18.3% due to the impairments of € 710 million required in the framework of the annual impairment test.

Impairments comprised an amount of € 480 million related to the Northern Europe sector, € 210 million related to the Western Europe sector and € 20 million related to the destinations sector.

At € 3,028 million, goodwill after impairments at the balance sheet date largely related to companies in the tourism division: at 50.4% the Northern Europe sector accounted for the largest proportion, followed by the Central Europe sector at 21.1% and the Western Europe sector at 8.9%. The destinations accounted for 19.6%. Goodwill related to companies in the shipping division totalled € 107 million. Goodwill of € 105 million arose on the acquisition of CP Ships after the purchase price was allocated to the acquired assets and liabilities in line with their market value, according to the rules of IFRS 3, in the framework of the final purchase price allocation in October 2006. No goodwill arose on any of the Group's other sectors. At the balance sheet date, goodwill accounted for 24.1% of total assets and 104.1% of equity.

Property, plant and equipment

At € 5,146 million, property, plant and equipment represented the largest item. They declined by 12.5%, with most disposals relating to ships and containers. Property, plant and equipment also comprised leased assets in which Group companies carried the economic ownership of the assets.

At the balance sheet date, these finance leases had a carrying amount of € 344 million, a change of - 22.5% year-on-year.

Development of property, plant and equipment

€ million	31 Dec 2006	31 Dec 2005	Var. %
Real estate with hotels	861.0	869.6	- 1.0
Other land	364.6	400.4	- 8.9
Aircraft	1,343.3	1,317.6	+ 2.0
Ships	1,523.4	2,064.1	- 26.2
Containers	395.9	473.1	- 16.3
Machinery and fixtures	454.5	537.6	- 15.5
Assets under construction, payments on account	203.0	219.8	- 7.6
Total	5,145.7	5,882.2	- 12.5

Companies measured at equity

A total of 54 companies were measured at equity, an increase of two year-on-year. This figure included 22 associated companies and 32 joint ventures. At € 408 million, their value was 9.4% up year-on-year at the balance sheet date, primarily due to additions from pro-rated profits for the year.

Financial assets available for sale

Financial assets available for sale decreased by 4.6% to € 117 million. They comprised shares in non-consolidated subsidiaries, investments and other securities.

Structure of the Group's current assets

€ million	31 Dec 2006	31 Dec 2005	Var. %
Inventories	129.3	150.4	- 14.0
Trade accounts receivable and other receivables ¹⁾	1,860.0	2,011.4	- 7.5
Current income tax claims	23.4	15.6	+ 50.0
Current receivables	1,883.4	2,027.0	- 7.1
Cash and cash equivalents	688.7	599.2	+ 14.9
Assets held for sale	171.4	714.7	- 76.0
Current assets	2,872.8	3,491.3	- 17.7

¹⁾ incl. receivables from derivative financial instruments

Development of the Group's current assets

Inventories

At € 129 million inventories decreased by 14% year-on-year. This decrease was mainly due to divestments, in particular the Wolf GmbH.

Current receivables

Current receivables comprise trade accounts receivable and other receivables, current income tax claims and receivables from derivative financial instruments. At € 1,883 million current receivables declined by 7.1% year-on-year. Here also the divestments were the determining factor for the declining development.

Cash and cash equivalents

Cash and cash equivalents rose by 14.9% to € 689 million. They mainly related to subsidiaries and companies not included in the Group's clearing of cash and cash equivalents.

Assets held for sale

Assets held for sale dropped by € 543 million. They comprised assets, in particular the container terminal in Montreal that was taken over in course of the acquisition of CP Ships and real estate, for which the Group was committed to a specific plan to sell.

Off-balance-sheet arrangements

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

Operating rental, lease and charter contracts

€ million	31 Dec 2006	31 Dec 2005	Var. %
Travel agencies	418.6	401.8	+ 4.2
Hotel complexes	433.6	418.7	+ 3.6
Aircraft	882.4	615.1	+ 43.5
Ships and container	2,219.2	2,224.5	- 0.2
Administrative buildings	350.9	456.5	- 23.1
Other	153.8	290.9	- 47.1
Total	4,458.5	4,407.5	+ 1.2
Fair value	3,827.1	3,847.0	- 0.5

The financial liabilities from operating rental, lease and charter contracts rose by 1.2% to € 4,459 million. At 49.8%, ships and container accounted for the largest share, with aircraft accounting for 19.8% and hotel complexes for 9.7%. The increase mainly resulted from the conclusion of new operating leases in the framework of the renewal of the aircraft fleet.

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

Net assets of TUI AG

The asset situation and balance sheet structures of TUI AG are characterised by its function as the TUI Group's holding company. The balance sheet total increased only slightly by 0.8% to € 10.5 billion.

Development of fixed assets

At the balance sheet date, fixed assets accounted for 93.8% of total assets, of which 70.9% were covered by equity and non-current cash and cash equivalents. 77.4% of TUI AG's fixed assets consisted of investments, mainly due to additions of € 933 million in shares in associated companies from the reorganisation of the participation structure in shipping. In terms of intangible assets and property, plant and equipment, the increase was primarily attributable to investments in ships of € 1,273 million and containers with € 334 million.

Development of current assets

The significant decline in the provision of cash and cash equivalents for associated companies also led to a reduction in receivables of € 2,446 million, so that its proportion of overall assets declined to 5.6%. The decrease in receivables from Group companies, of relevance in this connection, was primarily attributable to the realignment of the shipping division.

Abbreviated balance sheet of TUI AG (according to HGB)

€ million	31 Dec 2006	31 Dec 2005	Var. %
Intangible assets/property, plant and equipment	2,236.8	563.2	+ 297.2
Financial assets	7,651.6	6,842.2	+ 11.8
Fixed assets	9,888.4	7,405.4	+ 33.5
Receivables	594.5	3,040.2	- 80.4
Cash and cash equivalents	7.6	3.0	+ 153.3
Current assets	602.1	3,043.2	- 80.2
Prepaid expenses	49.0	7.3	+ 571.2
Assets	10,539.5	10,455.9	+ 0.8
Equity	3,616.5	3,702.8	- 2.3
Special non-taxed item	42.6	43.8	- 2.7
Provisions	730.2	947.9	- 23.0
Liabilities	6,137.6	5,754.3	+ 6.7
Deferred income	12.6	7.1	+ 77.5
Liabilities	10,539.5	10,455.9	+ 0.8

Financial Position **Liquidity safeguarded by long-term financing. Further reduction in financial debt.**

The divestments made in the 2006 financial year – in particular the divestment of business travel and trading activities – as well as a further optimisation of property, plant and equipment resulted in a reduction in net debt. Gross financial debt was further reduced through the scheduled redemption of a corporate bond of € 750 million. The issuance of private placements worth € 400 million helped to further safeguard liquidity in the framework of general corporate financing.

The Group's financial position

Principles

Principles and objectives of financial management

The TUI Group's central financial management is in principle run 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 a share of more than 50%. It is defined by guidelines covering all cash flow-oriented aspects of the Group's business activities and all transactions that may or will initiate future payment obligations for the Group.

Objectives

The objectives of TUI's financial management are securing permanent and sustainable supplies of sufficient liquidity and capital for TUI AG and its subsidiaries and limiting financial risks from foreign currencies, interest rates and commodity prices. All transactions are oriented to the objective of achieving the financial indicators required to enhance the current credit rating.

Liquidity management

The Group ensures its liquidity in two ways:

- Intra-Group financial clearing: The cash surpluses of individual Group companies are used to finance the cash requirements of other Group companies.
- Syndicated credit facilities and bilateral bank loans: These are used by TUI AG to secure sufficient liquidity reserves. Planning and operations with the banks are based on a monthly rolling liquidity planning system.

Limiting financial risks

The Group companies operate on a worldwide scale and obtain liquidity and capital in the international money and capital markets. This gives rise to financial risks for the TUI Group, mainly arising from changes in exchange rates, interest rates and commodity prices. The key currencies in which Group companies settle their business transactions are euros, US dollars and British pounds sterling. Other currencies of relevance are Swiss francs and Swedish krona. The Group has entered into hedges in more than 20 foreign currencies in order to limit risks from changes in

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

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

Development of the Group's capital structure

Group's capital structure			
€ million	31 Dec 2006	31 Dec 2005	Var. %
Non-current assets	10,141.2	11,883.1	- 14.7
Current assets	2,872.8	3,491.3	- 17.7
Assets	13,014.0	15,374.4	- 15.4
Subscribed capital	641.7	641.0	+ 0.1
Reserves including net profit available for distribution	1,798.3	3,168.8	- 43.2
Hybrid capital	294.8	294.8	-
Minority interests	275.5	262.2	+ 5.1
Equity	3,010.3	4,366.8	- 31.1
Non-current provisions	1,728.7	2,002.5	- 13.7
Current provisions	692.7	653.6	+ 6.0
Provisions	2,421.4	2,656.1	- 8.8
Non-current financial liabilities	3,477.6	3,213.9	+ 8.2
Current financial liabilities	422.0	1,144.3	- 63.1
Financial liabilities	3,899.6	4,358.2	- 10.5
Other non-current liabilities	55.3	71.5	- 22.7
Other current liabilities	3,627.4	3,921.8	- 7.5
Other liabilities	3,682.7	3,993.3	- 7.8
Liabilities	13,014.0	15,374.4	- 15.4

Capital structures

The impairments of goodwill effected in the financial year under review impacted the TUI Group's capital structures. Overall, non-current capital declined in absolute terms by 14.3% to € 8,272 million but rose in relation to the balance sheet total by 0.8 percentage points to 63.6%. The equity ratio declined to 23.1%, down from 28.4% in 2005. Equity and non-current financial liabilities accounted for 49.9% of the balance sheet total at the balance sheet date, following 49.3% in 2005. The gearing, i.e. the ratio of financial liabilities to equity, declined to 129.5%, having accounted for 99.8% in 2005.

Equity

Due to the issue of 287,280 employee shares in November 2006, the subscribed capital rose by around € 1 million to € 642 million. As a result, the capital reserve, which only comprised transfers from premiums, rose by € 11 million to € 2,396 million. Revenue reserves dropped by € 1,382 million to € - 598 million due to the impairments effected. Equity com-

prised the hybrid bond of € 295 million issued in December 2005. Minority interests accounted for € 276 million or 9.2% of equity.

Provisions

Provisions mainly comprised provisions for pension obligations, current and deferred income tax provisions and provisions for typical operating risks classified as current or non-current, depending on expected occurrence. At the balance sheet date, they accounted for a total of € 2,421 million and were thus € 235 million or 8.8% down on the previous year. This was due to a decrease in provisions for pension obligations caused by the divestments made in the course of the 2006 financial year.

Financial liabilities

Financial liabilities declined by a total of € 459 million to € 3,900 million. They were composed of bonds totalling € 2,353 million, liabilities to banks of € 1,042 million, liabilities from finance leases of € 291 million and other financial liabilities of € 213 million. The classification into current vs. non-current financial liabilities was based on maturities. The decrease of the financial liabilities shown as current debt down to € 422 million was due to the repayment of the corporate bond of € 750 million in October 2006. In particular due to the private placements of over € 400 million, the non-current financial liabilities rose to € 3,478 million. More detailed information, in particular on the remaining terms, is provided under 'Financial liabilities' in the notes on the consolidated financial statements.

Other liabilities

At € 3,683 million, other liabilities dropped by € 311 million or 7.8% year-on-year. This was mainly attributable to the decrease in current trade accounts payable, which had risen significantly in 2005 due to the acquisition of CP Ships.

Ratings by Standard & Poor's and Moody's

In the 2006 financial year, the rating agencies Standard & Poor's and Moody's adjusted their credit ratings of TUI AG. The corporate rating assigned by Standard & Poor's was adjusted to 'BB (negative outlook)', with Moody's changing their rating to 'Ba3 (review for possible downgrade)'. The senior notes of around € 2 billion issued in 2004 and 2005 were assigned a 'BB- (negative outlook)' rating by Standard & Poor's and a 'Ba3 (review for possible downgrade)' rating by Moody's. The hybrid bond issued in December 2005 was partly treated as equity as it was subordinated to other liabilities and did not have a fixed maturity; it was therefore rated 'B (negative outlook)' by Standard & Poor's and 'B2 (review for possible downgrade)' by Moody's. Due to the difficult market environment in 2006, Moody's again changed their corporate and bond ratings at the beginning of 2007 to 'B1 (stable outlook)' and 'B3 (stable outlook)', respectively, for the hybrid bond.

Key financing measures

The 2006 financial year was determined by the planned redemption of a corporate bond, contributing to a further reduction in gross financial debt, and the issue of private placements to take up outside capital as an additional liquidity safeguard in the framework of general corporate financing.

Redemption of a corporate bond

In October 2006, the corporate bond issued in 1999 was fully repaid at its nominal volume of € 750 million at the end of its maturity of seven years.

Private placements

In October and November 2006, private placements were issued with a maturity of around three years and a total volume of € 400 million. The private placements were loan notes worth € 217 million and bonds worth € 183 million, equipped with fixed and variable interest coupons in several tranches.

Bonding facility

TUI Northern Europe's syndicated bonding facility signed in March 2005 was extended by one year until 31 March 2009 in the framework of the first extension option. Under this facility, TUI Northern Europe or its subsidiaries can furnish bank guarantees as security to supervisory authorities as required for the tourism business in the UK, Ireland and Scandinavia. As at 31 December 2006, an amount of around GBP 263 million of the bonding facility had been taken up. In January 2007, the bonding facility was reduced by GBP 30 million to GBP 280 million and the second extension option was exercised, extending its maturity until 31 March 2010.

Interest rates

Interest rates and terms and conditions

In the 2006 financial year, the interest effects of the bonds of € 1.0 billion issued in December 2005 were reported for a full financial year for the first time. The average interest rate rose slightly due to this increase in the weighting of interest rates fixed in relation to the capital market and the increase in interest levels within this period. Both interest rates and maturities of the financial liabilities are detailed under the item 'Liabilities' (financial liabilities and liabilities to banks) in the notes on the consolidated financial statements.

Financing environment

In the course of the 2006 financial year, the environment for financing schemes in the money and capital markets deteriorated slightly for the TUI Group, in particular due to the downgrading of the ratings by Standard & Poor's and Moody's.

Issued bonds

Capital measure	Maturity	Volume € million	Interest rate %
Corporate bond October 1999	October 2006	750.00	5.875
Convertible bond November 2003	December 2008	384.55	4.000
Senior floating rate notes June 2004	August 2009	400.00	3-month- EURIBOR plus 2.10
Senior floating rate notes December 2005	December 2010	550.00	3-month- EURIBOR plus 1.55
Senior fixed rate notes May 2004	May 2011	625.00	6.625
Senior fixed rate notes December 2005	December 2012	450.00	5.125
Hybrid bond December 2005	No fixed maturity	300.00	8.625

Operating leases

Off-balance sheet financing instruments

In the 2006 financial year, off-balance sheet financing instruments (operating leases) were used both in the tourism and shipping divisions in order to further optimise property, plant and equipment. In connection

with the ongoing renewal of the aircraft fleet in tourism in 2006 a total of ten aircraft were delivered. For eight aircraft, operating lease agreements were concluded for the first time; including four aircraft in the course of sale-and-lease-back transactions. Furthermore, for two more aircraft – owned by TUI AG up to now – corresponding sale-and-lease-back agreements were concluded. In shipping, an operating lease was concluded to lease a newly commissioned container ship of 8,750 TEU. Six newly commissioned 4,250 TEU ships were chartered on the basis of long-term charter contracts. Two container ships previously operated under finance leases were converted to operating leases. In addition, seven smaller container ships previously operated as part of CP Ships' fleet, some of which were not used for Group operations, were sold and leased back on the basis of a long-term contract.

The development of the operating rental, leasing and charter contracts is presented in the section 'Net assets' in the management report. More detailed explanations and information on the structure of the remaining terms of the associated financial liabilities are provided in the section 'Other financial liabilities' in the notes on the consolidated financial statements. There were no contingent liabilities related to special-purpose companies.

Liquidity analysis

Liquidity reserve

In the 2006 financial year, the TUI Group's solvency was secured any time by means of cash inflows from operating activities as well as bilateral and syndicated credit agreements with banks.

In December 2005, TUI AG concluded an agreement on a syndicated credit line (multicurrency revolving credit facility) totalling € 1.75 billion. It had an original maturity of three years and two optional extensions for one year each. In October 2006, the first extension option was exercised. In the course of the new programme to reduce tied-up capital, the first measures (divestment of Montreal Gateway Terminals and of vessels and containers) are implemented. Therefore the syndicated credit-line could be reduced to € 1.0 billion in January 2007. In addition, the Group had bilateral credit lines with banks totalling € 0.7 billion. At the balance sheet date, a total of € 0.1 billion of the credit lines was utilised. In addition, cash and cash equivalents of € 0.7 billion were held at the balance sheet date. The TUI Group's cash reserve thus totalled € 2.3 billion.

No restrictions on the transfer of liquid funds

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

Change of control

TUI AG's listed bonds – the private placements issued in 2006, two bilateral credit line agreements as well as the syndicated credit line and bonding facility – comprised change of control clauses. A change of control occurs in particular if a third party directly or indirectly acquires more than 50% of the voting shares in TUI AG.

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

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

The total volume of financing instruments and credit lines with corresponding change of control clauses amounts to around € 4.6 billion at present. In addition, there are no provisions in guarantee, leasing, option or other financial agreements that might produce comprehensive early redemption obligations that would be of significant relevance for the Group's liquidity.

Besides the financial instruments mentioned above, a framework agreement between the Riu family and TUI AG comprised a change of control clause. A change of control occurs if a group of shareholders holds a majority at the Annual General Meeting respectively one third of the members of the shareholders in the Supervisory Board is to be accounted for one group of shareholders. In the event of a change of control, the Riu family is entitled to purchase a minimum of 20% and a maximum of all shares in RIU II S.A. held by TUI.

Summary cash flow statement

€ million	2006	2005	Var. %
Net cash inflow from operating activities	+ 466.5	+ 964.6	- 51.6
Net cash inflow/outflow from investing activities	+ 638.6	- 2,152.8	n. m.
Net cash inflow/outflow from financing activities	- 1,052.7	+ 1,306.5	n. m.
Change in cash and cash equivalents	+ 52.4	+ 118.3	- 55.7

Net cash inflow from operating activities

The net cash inflow from operating activities of € 467 million resulted from Group earnings, which totalled € - 599 million, adjusted for depreciation and amortisation, interest expenses and gains on the disposal of fixed assets. The major contribution came from the operating result in the tourism business.

Net cash inflow from investing activities

The net cash inflow from investing activities totalled € 639 million. Cash outflows of € 746 million primarily resulted from the investment volume in tourism and shipping. Cash inflows mainly resulted from the disposal of property, plant and equipment totalling € 610 million and of consolidated companies and financial assets totalling € 775 million, in particular the divestment of the business travel activities and the remaining industry shareholdings.

Net cash outflow from financing activities

The net cash outflow from financing activities amounted to € 1,053 million. Major items were the cash inflow from the private placements issued in October and November 2006 totalling € 400 million. Interest payments caused a total cash outflow of € 240 million, down 24.2% on the previous

year. The redemption of bonds and financial debt resulted in payments of € 1,223 million, down 23.3% on the previous year.

Development of cash and cash equivalents

€ million	2006	2005	Var. %
Cash and cash equivalents at the beginning of the period	607.5	481.1	+ 26.3
Changes due to changes in consolidation	+ 25.7	- 2.0	n. m.
Changes due to changes in exchange rates	+ 3.1	+ 10.1	+ 69.3
Cash changes	+ 52.4	+ 118.3	- 55.7
Cash and cash equivalents at the end of the period	688.7	607.5	+ 13.4

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

Analysis of investments

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

Additions to fixed assets

€ million	31 Dec 2006	31 Dec 2005	Var. %
Goodwill	9.1	136.1	- 93.3
Other intangible assets	45.9	43.8	+ 4.8
Investment property	7.5	16.5	- 54.5
Property, plant and equipment	685.4	901.9	- 24.0
Companies measured at equity	65.1	96.4	- 32.5
Financial assets available for sale	35.4	15.8	+ 124.1
Total	848.4	1,210.5	- 29.9

Additions to property, plant and equipment by divisions

At € 685 million or 80.8%, property, plant and equipment accounted for the largest portion of additions to fixed assets. This item included mainly additions of € 496 million or 72.4% in the tourism division, while shipping accounted for € 184 million or 26.8% of additions. At € 6 million, only 0.8% of the additions to property, plant and equipment related to central operations.

Investments in property, plant and equipment by divisions

€ million	2006	2005	Var. %
Tourism	495.9	511.8	- 3.1
Shipping	183.9	383.8	- 52.1
Central operations	5.6	6.3	- 11.1
Continuing operations	685.4	901.9	- 24.0
Discontinuing operations	-	-	-
Total	685.4	901.9	- 24.0

Tourism

In the tourism division, investments focused on flight operations which, accounting for € 230 million of investments. The largest portion was used for the fleet renewal programme. A volume of almost € 184 million was invested in the hotel sector.

Shipping

In the shipping division, investments accounted for almost € 184 million, including an amount of around € 38 million invested in container equipment. Besides investments associated with the integration of CP Ships, additions rose by a further € 23 million due to the capitalisation of dry dock costs.

Depreciation of property, plant and equipment by divisions

€ million	2006	2005	Var. %
Tourism	334.2	303.7	+ 10.0
Shipping	255.3	126.6	+ 101.7
Central operations	7.5	12.3	- 39.0
Continuing operations	597.0	442.6	+ 34.9
Discontinuing operations	–	–	–
Total	597.0	442.6	+ 34.9

Depreciation of property, plant and equipment totalled € 597 million, covering 87.1% of additions. This indicator stood at 67.4% in tourism and 138.8% in shipping.

Investment obligations

Order commitments

Due to agreements concluded in the 2006 financial year or in previous years, order commitments for investments totalled € 3,140 million at the balance sheet date, € 700 million of which were related to scheduled deliveries in the 2007 financial year. More detailed information is provided in the section 'Other financial obligations' in the notes on the consolidated financial statements.

Tourism

In tourism, order commitments for investments mainly related to the aircraft fleet renewal programme. The programme in France was completed with the addition of two additional Boeing 747-400s. In Germany, the renewal of older Boeing 737s will be started on schedule. In this connection, TUI had concluded a purchasing agreement with Boeing on the purchase of ten 737-800s in December 2004. Six of these aircraft were delivered in the first half of 2006, while the remaining four aircraft are to follow in the first half of 2007. Besides this purchasing agreement, options for the purchase of a further 61 aircraft to be delivered by 2013 were exercised. In addition, 25 delivery options for the period 2007 to 2011 were transferred to a third party.

Shipping

In the shipping division, Hapag-Lloyd had ordered a total of five container ships with a capacity of 8,750 TEU each at the balance sheet date, to be delivered by 2008, with three ships already to be delivered in the 2007 financial year. Two ships were directly ordered, with long-term leases with purchase options concluded for three ships, including two purchase options already exercised in 2006. In 2003, CP Ships had concluded long-term charter contracts for nine container ships with a capacity of 4,250 TEU each in order to extend its fleet. Six of these ships were delivered in the 2006 financial year, and two ships will follow by mid-2007.

Financial position of TUI AG

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

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

€ million	31 Dec 2006	31 Dec 2005	Var. %
Fixed assets	9,888.4	7,405.4	+ 33.5
Current assets	602.2	3,043.2	- 80.2
Prepaid expenses	49.0	7.3	+ 571.2
Assets	10,539.5	10,455.9	+ 0.8
Equity	3,616.5	3,702.8	- 2.3
Special item with an equity portion	42.6	43.8	- 2.7
Provisions	730.3	947.9	- 23.0
Bonds	2,709.5	3,459.6	- 21.7
Financial liabilities	641.4	402.9	+ 59.2
Other liabilities	2,786.6	1,891.8	+ 47.3
Liabilities	6,137.5	5,754.3	+ 6.7
Deferred income	12.6	7.1	+ 77.5
Liabilities	10,539.5	10,455.9	+ 0.8

Development of TUI AG's capital structure

Equity

At € 3,617 million, TUI AG's equity declined slightly by 2.3%. The subscribed capital of TUI AG consisted of no-par value shares, each representing an identical share in the capital stock. The proportionate share in the capital stock per no-par value share was around € 2.56. In July 2005, the previous bearer shares were converted to registered shares. The issue of 287,280 employee shares in November 2006 hardly impacted the amount of subscribed capital. It rose by € 1 million to € 642 million. Therefore, the subscribed capital was represented by 251,019,855 shares at the end of year under review, the capital reserves stayed nearly constant at € 2,398 million, whereas the revenue reserves increased by 11.0% to € 523 million. At € 54 million, net profit available for distribution was € 141 million down year-on-year. The equity ratio declined by 1.1 percentage points to 34.3%, down from 35.4% in 2005.

The special item with an equity portion remained almost unchanged. As in 2005, it continued to comprise tax value adjustments on fixed assets.

Provisions

Provisions declined by 23.0% to € 730 million. They comprised provisions for pensions of € 224 million (previous year: € 216 million) and other provisions of € 506 million (previous year: € 732 million).

Liabilities

TUI AG's liabilities totalled € 6,138 million and thus rose by € 383 million or 6.7% year-on-year. This was attributable to a substantial increase in other liabilities.

Authorisation of the Executive Board for purchasing and issuing shares

The Annual General Meeting of 10 May 2006 authorised the Executive Board of TUI AG to purchase own shares of up to 10% of the subscribed

capital. The authorisation will expire on 9 November 2007 and replaces the authorisation granted by the Annual General Meeting of 11 May 2005. To date, the possibility of acquiring own shares has not been used.

On the basis of a resolution by the Annual General Meeting of 10 May 2006, conditional capital of € 100.0 million was available at the balance sheet date. According to the resolution, bonds with conversion options or warrants as well as profit participation rights and income bonds with a total par value of up to € 1.0 billion may be issued by 9 May 2011.

In addition, the Group had unused authorised capital of € 317.0 million, including authorised capital of € 7.0 million for the issue of employee shares. The Executive Board of TUI AG has been authorised to use this capital by 17 May 2009. In addition to the authorised capital for the issuance of employee shares, the Annual General Meeting of 10 May 2006 resolved to create authorised capital for the issuance of new shares against cash or non-cash contribution totalling € 310.0 million. The issue of new shares against non-cash contribution was limited to € 128.0 million. The Executive Board of TUI AG has been authorised to use this capital by 9 May 2011.

Report on Subsequent Events

After the completion of the 2006 financial year, there was an event of special relevance to the TUI Group.

Transaction

On 22 February 2007, CP Ships Limited made a disposal agreement about the essential assets of Montreal Gateway Terminals to Montreal Gateway Terminals Limited Partnership, a company specifically founded by Morgan Stanley Infrastructure Partners for this purpose. Montreal Gateway Terminals had been part of the business of CP Ships, acquired in 2005. Montreal Gateway Terminals is the second largest container terminal in Canada and the third largest terminal on the eastern coast of North America. This divestment was effected in the framework of the reduction in tied-up capital announced by TUI AG.

Montreal Gateway Terminals Limited Partnership acquired the container terminal business by means of an asset deal. TUI continues to hold a 20% interest in the new Montreal Gateway Terminals Limited Partnership via CP Ships Limited. The purchase price for the transaction was € 300 million. Hapag-Lloyd remains an important customer with a long-term terminal contract.

Economic effects

In the 2006 financial year, Montreal Gateway Terminals contributed € 92 million to Group turnover. This amount was shown under Shipping in the segment report. Earnings before interest, taxes and amortisation of goodwill (EBITA) totalled € 15 million.

Risk Report Proven systems for control and management of risks.

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

Risk policy

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

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

Risk management

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

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

In addition, special independently organised reporting systems have been introduced for the early identification of risks threatening the existence

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

The Supervisory Board was involved by means of regular reports and, where required, ad hoc reports provided by the Executive Board in the form of interim reports or reports presented at its meetings.

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

The methods and systems used in risk management and the frequency of controls are tailored to the respective types of risks and are continually checked, modified and adjusted to changing business environments. The systems for early identification of risks threatening the Group's existence were audited by our auditors in the course of the audit of the 2006 annual financial statements.

The regular risk reporting system did not identify any specific risks threatening the continued existence of individual Group companies or the entire Group, neither during the 2006 financial year nor at year-end.

Risk transfer

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

Risks related to the future development

Economic and industry risks

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

Risks from acquisitions and divestments

The acquisition of CP Ships was an essential element of TUI's growth strategy in container shipping. The integration of CP Ships into Hapag-Lloyd AG is expected to create significant synergy effects intended to create a positive impact on the TUI Group's profitability and cash flow. Although the integration processes were carefully planned and prepared and the potential earnings effects were assessed on a conservative basis, there is nevertheless a risk of the synergy effects proving to be lower than expected.

The acquisitions effected in the course of the realignment of the TUI Group have given rise to goodwill. A negative economic trend causing a decline in expected future cash flows gives rise to impairments (for instance amortisation of goodwill) impacting consolidated earnings.

Risks from information technology

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

In order to guarantee the security and efficiency of business processes, IT systems are continually reviewed and further developed. This also applies to existing measures to ensure data safety aimed at controlling system access and limiting default risks. This is exemplified by the implementation of firewalls, virus scanners and the complete mirroring of all application-critical systems, websites and infrastructure components in two physically separate computer centres.

Business risks in tourism

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

A substantial business risk in tourism relates to the seasonal planning of flight and hotel capacity. In order to plan ahead, tour operators must forecast demand and anticipate trends in holiday types and destinations. TUI's business model is well suited to countering the ensuing occupancy risks:

- The Group's own airline and hotel capacity is considerably lower than the number of holidaymakers handled by its tour operators. This enables the Group to keep its product portfolio flexible by procuring third-party flight capacity and hotel beds and concluding corresponding contractual agreements.

- The Group's presence in all major European markets allows it to limit the impact of regional fluctuations in demand on capacity utilisation in the destinations.
- Additional opportunities are offered by multi-channel distribution and direct and modular marketing of capacity via new media such as the internet.

Business risks in shipping

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

- activity in the East-West routes, i.e. trade lanes with long-term attractiveness,
- expansion of operations in the North Atlantic and routes to and from the Americas by means of the acquisition of CP Ships,
- membership of the Grand Alliance, one of world's leading liner shipping consortium.

Financial risks

The TUI Group operates a central finance management that executes all essential transactions with the financial markets. TUI AG acts as the Group's internal bank: it organises intra-Group financial settlement, ensures the Group companies' liquidity and is in charge of the Group's financial risk management. The trading, settlement and controlling functions are segregated.

The individual financing categories, rules, competences and workflows as well as the limits for transactions and risk positions are defined by guidelines. As a matter of principle, all hedges entered into by the Group must be supported by underlying recognised or future business transactions. Compliance with the guidelines and limits is constantly monitored. Recognised standard software is used for monitoring, evaluating and reporting on the hedges.

Financial instruments

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

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

Liquidity management

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

Both money and capital market instruments as well as bilateral bank loans and syndicated credit facilities are used to meet the Group's financing requirements. At the balance sheet date, TUI AG had bilateral credit facilities of € 0.7 billion available, of which € 0.1 billion were drawn. In addition, the Company had a syndicated credit facility of € 1.75 billion. In the framework of the new programme to reduce tied-up capital and the completion of the implementation of the first few measures, TUI reduced its syndicated credit facility to € 1.0 billion in January 2007. The maturity of this credit facility is two years for the amount of € 1.0 billion and one further year for an amount of € 0.8 billion. In addition, the Group has an extension option for one further year. At the balance sheet date, this syndicated credit facility was not used. Due to the bilateral credit facilities and syndicated credit facility, TUI always has a sufficient liquidity reserve.

In order to meet its long-term financing requirements, TUI had taken up a total of € 2.71 billion in the capital market as at the balance sheet date, comprising a total of six bonds with different structures and maturities. Future repayment or refinancing risks were limited by means of an optimisation of the maturities and volumes of these bonds.

In order to meet the regulatory requirements (in particular by the Civil Aviation Authority) placed on TUI Northern Europe as a provider of services in tourism in the UK, Ireland and Scandinavia, TUI Northern Europe Limited has concluded a syndicated bank facility (bonding facility in the form of credits by way of bank guarantees) of 0.3 billion GBP. The bonding facility will mature on 31 March 2009 for a volume of 0.3 billion GBP with the possibility of an extension for one further year upon the exercise of the extension option in February 2007 for a volume reduced to 0.2 billion GBP.

The syndicated credit facility, the syndicated bonding facility and the financial liabilities taken up via the capital market comprise a number of obligations: Concerning e.g. the syndicated credit facility and the syndicated bonding facility, the obligations comprise the duty to comply with financial covenants covering (a) compliance with a fixed-charge cover ratio, i.e. the relative charge on the Group from the interest result and the lease and rental expenditure; and (b) compliance with a leverage ratio, e.g. the relative charge on the Group from financial liabilities and off-balance sheet debt (fair value of financial liabilities from operating lease, rental and charter agreements). The covenants also restrict TUI's scope for encumbering or selling assets, acquiring other companies or shareholdings and

effecting mergers. The capital market instruments as well as the syndicated credit facility and bonding facility comprise additional contractual clauses typical of financing instruments of this type. Non-compliance with these obligations awards the lender the right to call in the facilities or terminate the capital market instruments. TUI's business transactions and the expected business trend are continually checked for compliance with contractual provisions.

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

Risks from pension obligations

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

The TUI Group's fully or partly funded pension obligations totalled € 1.93 billion, while the fair value of external pension plan assets amounted to € 1.40 billion. At the balance sheet date, the funded pension obligations thus exceeded pension plan assets by € 0.53 billion. Combined with the fair value of pension obligations not covered by funds of € 0.54 billion, this results in a net fair value of pension obligations of € 1.07 billion, fully covered by pension provisions. More detailed information about the development of pension obligations is provided under the item 'Provisions for pensions and similar obligations' in the notes on the consolidated financial statements.

Other financial liabilities

At the balance sheet date, the TUI Group had other financial liabilities of € 6.1 billion (previous year: € 4.2 billion). These liabilities mainly related to order commitments for investments and tourism services. Around 28% of the total amount had a remaining term of up to one year.

At the balance sheet date, financial liabilities from operating lease, rental and charter agreements amounted to € 4.5 billion (previous year: € 4.4 billion). At € 2.2 billion, ships and container accounted for the largest proportion of financial liabilities from operating lease, rental and charter agreements, with € 0.9 billion relating to aircraft, € 0.4 billion to hotels and € 1.0 billion to other buildings and Other. Around 27% of the total amount had a maturity of up to one year.

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

Environmental risks

The present companies of the TUI Group as well as companies already divested are or were involved in the utilisation, processing, extraction, storage or transport of materials classified as damaging to the environment or human health. TUI takes preventive measures to counter envi-

ronmental risks arising from current business transactions and has taken out insurance policies for certain environmental risks. Where environmental risks have not passed to the buyers in divestment transactions, TUI has formed appropriate provisions in the balance sheet in order to cover potential claims.

Contingent liabilities and litigation

Contingent liabilities are potential liabilities not recognised in the balance sheet. At the balance sheet date, they amounted to € 214 million (previous year: € 306 million) and mainly related to warranties and guarantees to settle ongoing transactions from former plant engineering and shipbuilding activities. Due to the reduction in warranties and guarantees, this amount continued to decline steadily in the 2007 financial year.

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

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

Remuneration Report

Upon the suggestion of the Presiding Committee, the Supervisory Board regularly discusses and reviews the structure of the remuneration system for the Executive Board. The remuneration of the Executive Board members is fixed by the Presiding Committee, which orients its decision to the size and global operations of the Company, its economic situation and the level and structure of the remuneration of Executive Board members in comparable companies. Other criteria taken into consideration are the responsibilities held and contribution made by each individual Board member.

Remuneration of the Executive Board

The remuneration of TUI AG's Executive Board members comprises both fixed and variable components. The variable components are a management bonus and a bonus with a long-term incentive effect (long-term incentive programme). The level of the bonus depends on the Group profit for the year and on earnings by the divisions in the completed financial year (in the previous year on the payment of the dividend) and personal assessment factors. The compensation is calculated on the basis of the respective earnings before interest, taxes and amortisation of goodwill (EBITA). In addition, Executive Board members were entitled to a company car with chauffeur as well as special travel discount rates.

In the framework of the long-term incentive programme, the Board members were granted a bonus for the 2006 financial year, translated into phantom shares in TUI AG on the basis of an average stock price. The calculation for granting phantom shares was based on Group earnings before taxes and amortisation of goodwill (EBTA). The translation into phantom shares is based on the average stock price of TUI shares at the 20 trading days following the Supervisory Board meeting at which the annual financial statements is approved. Thus, the number of phantom shares granted in a financial year is not determined until the subsequent year. Following a lock-up period of two years, the individual Executive Board members are free to exercise their right to cash payment from this bonus within previously determined periods of time. By resigning from the Executive Board the blocking period is not applicable. The level of the cash payment is based on TUI AG's average stock price over a period of 20 trading days after the exercise date. There are no absolute or relative return or share price targets. A cap is provided for exceptional unforeseen developments.

Development of the number of phantom shares

	Number
Balance as at 31 December 2005	430,151
Phantom stocks granted for the 2005 financial year	123,036
Phantom stocks exercised	- 75,525 ¹⁾
Increase/decrease of phantom stocks	+ 25,849
Balance as at 31 December 2006	503,511

¹⁾ at Mr Ebel's resignation

As in 2005, former Executive Board members held no phantom shares as at 31 December 2006.

Provisions of € 8,481 thousand (previous year: € 9,421 thousand) were formed for the entitlements from the long-term incentive programmes including the issue of phantom shares for the 2006 financial year.

In the 2006 financial year, the Executive Board members recorded a loss of € 1,107.1 thousand (previous year: € - 250.6 thousand) from the measurement of the phantom shares.

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

€ '000	2006	2005
Dr. Michael Frenzel (Chairman)	- 344.2	- 20.3
Michael Behrendt	-	-
Sebastian Ebel ¹⁾	- 142.3	- 54.0
Dr. Peter Engelen	- 190.2	- 70.3
Rainer Feuerhake	- 376.1	- 106.0
Christoph R. Mueller	-	-
Peter Rothwell	- 54.3	-
Total	- 1,107.1	- 250.6

¹⁾ until his resignation

Remuneration of individual Executive Board members

€ '000	Non-performance-related compensation	Performance-related compensation	Long-term incentive programme	Compensation for Group Supervisory Board membership	Total 2006	Total 2005
Dr. Michael Frenzel (Chairman)	1,104.8	634.0	5.0	252.8	1,996.6	3,479.9
Michael Behrendt (since 10 May 2006)	331.4	269.4	2.0	52.5	655.3	-
Sebastian Ebel (until 31 Aug 2006)	317.3	-	-	32.8	350.1	1,592.8
Dr. Peter Engelen	469.1	380.4	3.0	73.1	925.7	1,591.5
Rainer Feuerhake	652.0	507.2	4.0	208.8	1,372.0	2,466.1
Christoph R. Mueller (since 1 Sept 2006)	152.8	126.8	1.0	3.3	283.9	-
Peter Rothwell (since 10 May 2006)	548.0	1,208.9	2.0	25.6	1,784.4	-
Total	3,575.4	3,126.7	17.0	648.9	7,368.0	9,130.3
Previous year	2,688.3	4,054.3	2,005.5	382.2	9,130.3	-

As in the 2006 financial year, no advances or loans were granted to the Executive Board members.

Compensation in the event of a termination of employment

a) Pension entitlements

Pension payments were made to former Executive Board members who had either reached the legal retirement age or were permanently incapaci-

cited. The pension was calculated on the basis of a pensionable pay oriented to the fixed compensation of an Executive Board member. The pension level was determined as a percentage of pensionable pay. This percentage was 50% for the first employment contract period. Depending on the number of employment contract periods or due to individual arrangements, this percentage may rise up to 80%. A special provision applies to one foreign Executive Board member, whose pension accounts for two thirds of pensionable pay. Pension entitlements are vested rights after the expiration of the first period of office.

Under certain circumstances, widows of Executive Board members obtain a widow's pension of 60% of the pension for their lifetime or until re-marriage. Children of Executive Board members obtain an orphan's pension of 20% of the pension if they have lost one parent and 25% of the pension if they have lost both parents at maximum until they reach the age of 27.

Pension entitlements/transfers to pension provisions or funds

€ '000	Annual pension	Transfers to pension provisions or funds
Dr. Michael Frenzel (Chairman)	720.0	678.9
Michael Behrendt	320.0	671.3
Sebastian Ebel ¹⁾	200.0	–
Dr. Peter Engelen	240.0	178.3
Rainer Feuerhake	424.0	346.2
Christoph R. Mueller	200.0	83.3
Peter Rothwell	444.0	29.6

¹⁾ Employment terminated on 31 August 2006.

b) Transitional compensation

Executive Board members retiring upon the expiry of their term of office either for lack of reappointment or renewal of their term of office or because the Company terminates their contract of employment are entitled to transitional compensation until the date at which the pension payments fall due. For contracts of employment effective before 1 September 2006, the transitional compensation corresponds to the pension entitlement. For contracts effective after 1 September 2006, the transitional compensation accounts for 50% of the pension entitlement. Any income received by the beneficiary from self-employment or employment, from pension or transitional payments by other companies or insurance benefits is deducted from the transitional compensation entitlement. The special provision applicable to a foreign Executive Board member does not include an entitlement to transitional compensation payments.

c) Change of control

In the event of a change of control – i.e. if one or several shareholders acquire the majority of voting rights in TUI AG – every Executive Board member is entitled to settlement of the financial claims for the remaining term of the contract of employment as a Board member if the member loses his office due to a change of control or exercises the right, specifically accorded for this case, to withdraw from office and give notice to quit his contract of employment as Board member. The performance-related compensation and the allotment of phantom shares for the remaining term of the contract of employment is based on the average remuneration received over the last three financial years. The same principle applies to the compensation for Supervisory Board memberships received from Group companies to date.

The employment contracts for Executive Board members do not comprise an explicit compensation provision for the event of a premature termination of the employment relationship. However, a compensation may be paid under an individual termination agreement.

At the balance sheet date, pension commitments for active Board members amounted to € 20,663 thousand (previous year: € 18,675 thousand). Pension commitments for former members of the Executive Board or their surviving dependants totalled € 47,811 thousand (previous year: € 46,671 thousand) at the balance sheet date.

The pension commitments for German beneficiaries were funded via pledged reinsurance policies. Since the reinsurance policies fully covered the commitments for the pension obligations for former and active Board members, they were deducted from pension commitments as an asset. The pension commitment for one former Board member was covered by a fund. Transfers to pension provisions for active Board members totalled € 1,988 thousand (previous year: € 6,020 thousand) in 2006.

Total compensation for former Executive Board members and their surviving dependants amounted to € 5,652 thousand including one-off termination payments of € 2,000 thousand paid to a retired Board member (previous year: € 3,679 thousand) in the 2006 financial year. In addition, provisions of € 3,250 thousand (previous year: € 0 thousand) were formed for the settlement of non-competition clauses and potential transitional payment entitlements.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members comprises a fixed and variable components. These are calculated on the basis of section 18 of TUI AG's articles of association, permanently accessible to the public on the internet. Accordingly, the members of the Supervisory Board receive a fixed compensation of € 40,000, payable upon the end of the financial year, besides the reimbursement of their expenses. The Chairman receives three times this amount, while his Deputy and other members of the Presiding Committee receive one and a half times this amount. Membership and the chairmanship in committees are separately compensated.

In addition, the Supervisory Board members receive a compensation oriented to the Company's short-term success of € 100 per € 0.01 of the earnings per share carried for the completed financial year. Since no earnings per share were generated in the 2006 financial year, no short-term variable compensation was paid for the completed financial year.

In addition, the Supervisory Board members obtain a compensation related to the Company's long-term performance. The long-term variable component comprises a basic amount of € 20,000 per year. This basic amount is paid upon completion of the third year following the entitlement and increases or decreases in line with the percentage change in earnings per share within this period.

Remuneration of the Supervisory Board

€ '000	2006	2005
Fixed compensation	973.5	116.5
Short-term variable compensation	–	1,658.3
Long-term variable compensation	486.4	–
Compensation for committee membership	160.0	133.7
Compensation for TUI AG Supervisory Board membership	1,619.9	1,908.5
Compensation for Group Supervisory Board memberships	319.3	200.7
Total	1,939.2	2,109.2

Moreover, travel expenses and other expenses totalling € 74 thousand (previous year: € 64 thousand) were reimbursed. Accordingly, total compensation for the Supervisory Board members amounted to € 2,013 thousand (previous year: € 2,173 thousand).

Apart from the work performed by the employee representatives in the framework of their employment contracts, the members of the Supervisory Board did not provide any personal services such as e.g. consultation or agency services for TUI AG and its subsidiaries in the 2006 financial year.

Remuneration of individual Supervisory Board members for 2006

€ '000	Fixed compensation	Variable short-term compensation	Variable long-term compensation	Compensation for committee membership	Compensation for Group Supervisory memberships	Total
Dr. Jürgen Krumnow (Chairman)	120.0	–	60.0	20.0	109.6	309.6
Jan Kahmann (Deputy Chairman)	60.0	–	30.0	–	–	90.0
Andreas Barczewski (since 10 May 2006)	25.7	–	12.8	–	–	38.5
Jean-Claude Baumgarten (since 10 May 2006)	25.7	–	12.8	–	–	38.5
Jella Susanne Benner-Heinacher	40.0	–	20.0	–	–	60.0
Sepp Dieter Heckmann (since 10 May 2006)	25.7	–	12.8	–	–	38.5
Uwe Klein	60.0	–	30.0	20.0	76.5	186.5
Fritz Kollorz (until 10 May 2006)	14.4	–	7.2	–	–	21.6
Christian Kuhn	40.0	–	20.0	–	16.0	76.0
Dr. Dietmar Kuhnt	40.0	–	20.0	60.0	93.2	213.2
Dr. Klaus Liesen (until 10 May 2006)	21.7	–	10.8	–	–	32.5
Alfred Linzmeier (since 10 May 2006 until 5 Oct 2006)	16.2	–	8.1	–	1.3	25.6
Roberto López Abad	40.0	–	20.0	–	–	60.0
Dieter Lübke (since 2 Nov 2006)	6.6	–	3.3	–	–	9.9
Dr. h.c. Abel Matutes Juan	40.0	–	20.0	–	–	60.0
Petra Oechtering	52.8	–	26.4	–	–	79.2
Carmen Riu Güell	60.0	–	30.0	–	–	90.0
Hans-Dieter Ruster (until 10 May 2006)	14.4	–	7.2	–	–	21.6
Marina Schmidt (until 30 March 2006)	10.0	–	5.0	–	–	15.0
Dr. Manfred Schneider	40.0	–	20.0	12.8	–	72.8
Roland Schneider (since 10 May 2006)	25.7	–	12.8	–	–	38.5
Dr.-Ing. Ekkehard D. Schulz (until 10 May 2006)	14.4	–	7.2	7.2	–	28.8
Hartmut Schulz (until 10 May 2006)	21.7	–	10.8	–	–	32.5
Ilona Schulz-Müller	40.0	–	20.0	20.0	–	80.0
Olaf Seifert	40.0	–	20.0	20.0	–	80.0
Henry Sieb (since 10 May 2006)	25.7	–	12.8	–	22.7	61.2
Dr. Franz Vranitzky	52.8	–	26.4	–	–	79.2
Total	973.5	–	486.4	160.0	319.3	1,939.2

Research and Development **Innovation in tourism and shipping.**

One of the key entrepreneurial tasks of the TUI Group is the continuous development of the services offered to our customers. Innovative, marketable products and services that set trends and secure the TUI Group's competitiveness therefore form the basis for sustained growth.

Innovation-driven activities in tourism and shipping, our two core businesses, related to product and service portfolios, new media and information management. The associated expenses were primarily incurred in marketing.

Some of the key factors required in order to be successful in the market in both core businesses are the forward-looking development of attractive products and services as well as the expansion of strong brands. In addition, the operating processes are constantly optimised and networked by use of modern IT technology both in tourism and shipping in order to enhance their efficiency.

Innovation in tourism

TUI innovation campaign

Under the motto „Let your idea win“, TUI AG initiated an innovation campaign across all business sectors in tourism in 2006. Almost 3,500 innovation suggestions concerning categories such as „new business fields“ or „processes & efficiency“ were submitted for the entire division. The best ideas were selected, and business plans were developed for these suggestions. In cooperation with the local managers, TUI AG's Executive Board then decided on how to implement the best suggestions.

Central Europe

In Central Europe, the brochure world for the 2007 summer season was divided into three segments. Separate brochures were thus offered for TUI Schöne Ferien (classic seaside holidays), TUI Weltentdecker (city breaks and circular trips) and TUI Premium. This measure helped to further enhance communication with specific target groups.

Northern Europe

In the Northern Europe sector, the successful booking website was further developed. Customers are now able to directly watch more than 2,000 videos showing destinations and accommodation and download satellite pictures of the destination and the relevant sights on the website.

Western Europe

In the Western Europe sector, the new reservation system Contour was launched for the third-party travel agencies in September. This platform now offers a more cost-efficient and technically more reliable system to operate a last-minute search engine and offer dynamic packaging functions, i.e. enabling customers to individually combine holiday modules. It is planned – as the next step – to initiate the system also for the own retail.

Flight operations

In flight operations, TUI Airline Management created a platform for marketing and retail issues in 2006 in order to contribute to the harmonisation of distribution systems and platforms and establishment of a joint distribution strategy and structure for all TUI airlines. In addition, the definition of standard processes for cockpit behaviour in individual types of aircraft was started. This will make it easier in future for the airlines to exchange aircraft and to train cockpit crews.

Destinations

The agency portal developed in cooperation with the incoming agencies was further expanded. The offerings placed on the portal such as island trips or guided museum tours may be incorporated into the websites of individual Group companies as microsites.

Web domains

A major competitive factor are the TUI Group's brands, internationally protected through protective rights, even in growth markets such as India or China. With the strong growth in web-based distribution, the number of web-sites registered for TUI has risen accordingly. Overall, the Group holds several thousand domains. A large number of similar URLs is linked with main URLs such as tui.com or thomson.co.uk.

Electronic data interchange

Innovation in shipping

As before, development activities within Hapag-Lloyd focused in particular on information technology in 2006. The main focus was on the further expansion of our e-business. Activities centred to a large extent of the further development of electronic data interchange (EDI). The EDI system automates direct data interchange between a customer's internal IT system and Hapag-Lloyd's system. This offers substantial potential for efficiency enhancements on both sides.

Communication systems

In the 2006 financial year, major communication modules were improved and expanded. A web-based conferencing system – eMeeting – was used in order to implement project meetings, presentations or training sessions via the web in a time- and cost-saving way. In order to facilitate safe, flexible and fast exchanges of information, both within the Hapag-Lloyd Group and between Hapag-Lloyd and external partners and customers, the intranet was complemented by teamsites. This enables global teams to share and manage documents, tasks, dates and deadlines.

Customer relationships

With the new analysis tool 'Web Focus', Hapag-Lloyd offers final users the possibility of rapidly preparing, analysing and distributing data concerning specific issues such as Hapag Lloyd customers' sales and marketing activities for large user groups.

Human Resources Changes in headcount and personnel structure due to divestments and integration of CP Ships.

In the 2006 financial year, the TUI Group's headcount declined to 53,930. This decrease was primarily attributable to the divestments made and restructurings in course of the integration of CP Ships.

Changes in headcount and personnel structure

At the balance sheet date, the TUI Group's worldwide headcount totalled 53,930 employees, down 14.3% year-on-year. The structure of the Group's personnel changed due to the divestments made. The tourism division continued to employ the largest proportion of personnel at 82.3%, up from 80.2% in 2005. The shipping division accounted for 15.9% of employees, compared with 14.4% in the previous year. The proportion of employees working for central operations changed substantially due to the divestment of Wolf GmbH, dropping from 3.5% in 2005 to now only 1.8% of the overall headcount.

Personnel by divisions

	31 Dec 2006	31 Dec 2005	Var. %
Tourism	44,409	50,498	- 12.1
Central Europe	9,411	9,691	- 2.9
Northern Europe	14,711	16,254	- 9.5
Western Europe	6,504	6,904	- 5.8
Destinations	13,783	12,866	+ 7.1
Other tourism	-	4,783	-
Shipping	8,571	9,077	- 5.6
Central operations	950	2,183	- 56.5
Continuing operations	53,930	61,758	- 12.7
Trading	-	1,189	-
Special logistics	-	-	-
Discontinuing operations	-	1,189	-
Total	53,930	62,947	- 14.3

Tourism

In the tourism division, the number of employees totalled 44,409 at the end of the financial year, down 12.1% year-on-year. The individual sectors showed varying headcount trends. The Central Europe sector recorded a 2.9% decline in employees to 9,411, in particular due to a decrease in employment in airlines. The Northern Europe sector reported a 9.5% decline to 14,711, since some of the restructuring measures initiated in 2005 only became fully effective in 2006. In the Western Europe sector, the headcount dropped by 5.8% to 6,504. This decline was mainly attributable to the divestment of the specialist tour operator and incoming businesses in the Netherlands and the closure of travel agencies in France. On the other hand, the Belgian airline increased its headcount due to capacity expansion. The destinations sector reported a 7.1% increase in headcount to 13,783.

Shipping

In the shipping division, the headcount declined by 5.6% year-on-year to 8,571 due to the integration of CP Ships, which was completed in the course of 2006.

Central operations

The central operations sector recorded a decline in headcount by 56.5% to 950 due to the divestment of Wolf GmbH (thereof Corporate Centre 465).

Seasonal trends

The development of headcount in the course of the year is strongly characterised by the seasonal fluctuations in employment in tourism, in particular in the hotel companies and incoming agencies. The temporary employment of seasonal staff resulted in an average headcount of 20,802 in the destinations sector in the summer months from June to August, compared with 13,783 employees at year-end. In the tourism division as a whole, the average number of employees in the 2006 financial year totalled 49,499, dropping by 11.9% to 44,409 at year-end.

International headcount

At 86%, Group employment continued to focus on Europe. 21% of Group employees worked in Germany, 24% in the UK, 13% in France and the Benelux countries, 14% in Spain and 3% in the Nordic countries. Group companies outside Europe accounted for 14% of the overall workforce, with most of these employees working for Hapag-Lloyd in America and Asia.

Personnel by regions

	31 Dec 2006	31 Dec 2005	Var. %
Germany	11,112	15,750	- 29.4
UK/Ireland	12,975	15,165	- 14.4
Nordic countries	1,599	1,623	- 1.5
France/Benelux countries	7,202	8,552	- 15.8
Spain	7,656	7,369	+ 3.9
Other Europe	5,729	4,843	+ 18.3
America	4,149	5,737	- 27.7
Rest of world	3,508	3,908	- 10.2
Total	53,930	62,947	- 14.3

Personnel costs

Personnel costs rose by 5.7% to € 2,435 million, due to the consolidation of CP Ships for the entire year and due to restructuring expenses in the tourism and shipping division. Explanatory information on the development of the individual items is provided in the notes on the consolidated financial statements.

Personnel costs

€ million	2006	2005	Var. %
Wages and salaries	1,968	1,842	+ 6.8
Social security contributions	467	462	+ 1.1
Total	2,435	2,304	+ 5.7

Environmental Protection Group environmental performance indicators. Continuous improvement in environmental quality by means of certification. Partnership and cooperation.

Nature conservation and an intact environment, climate protection and the protection of seas and oceans are key prerequisites for sustainable activities in the tourism and shipping divisions. TUI's sustainable environmental management therefore is integral part of the Group's management quality concerning ecological governance, compliance and risk prevention.

Environmental monitoring

Group environmental performance indicators

Due to the differentiated consideration of international reporting standards such as the G3 Guidelines of the Global Reporting Initiative (GRI) the transparency of the environmental performance across the entire Group could be enhanced in the 2006 financial year. In 2006, environmental indicators concerning energy efficiency and climate-related emissions were determined in particular for the Group's airlines and hotels as well as its shipping division. These indicators facilitated a relevant determination of its environmental impact. This improved transparency was reflected by TUI AG's admission to the Dow Jones Sustainability Index (DJSI) World.

Energy consumption

The highest part of the energy consumption by the Group primarily relates to the use of fossil fuels in airline and shipping operations. Due to the integration of CP Ships the energy consumption is not comparable year-on-year. Total energy consumption amounted to 232,426 Tera Joule (TJ). Fuel consumption by the airlines rose 3.4% due to the expansion of the fleet. TUI's airlines recorded a specific fuel consumption of 3.08 litres of aircraft fuel per 100 passenger kilometres in 2006 and were thus among the most efficient airlines. The increase in specific energy consumption per TEU and nautical mile in the container shipping to 2.41 Mega Joule per TEU and per nautical mile was caused by the increase in the number of smaller container ships. A decrease of about 12% to 3,65 mega joule per passenger and 100 nautical miles could be achieved in case of the cruise ships.

Carbon dioxide emissions

One of the key environmental indicators for the TUI Group is the emission of carbon dioxide (CO₂) caused by the airlines and shipping operations. In the 2006 financial year the overall emission of CO₂ stood at 15.99 million tons. At 7.9 kilogram, the emission of CO₂ per 100 passenger kilometre was slightly – about 2% – higher year-on-year for all airlines. The emission of CO₂ of the container ship fleet stood at 174.16 g per TEU and nautical mile in the 2006 financial year. In the cruise sector a reduction of the specific emission of about 12% to around 283 g CO₂ per passenger and 100 nautical miles was achieved.

Hotels newly certified according to ISO 14001:

Magic Life: *Club Africana Imperial (Tunisia)*

Iberotel: *Gran Sharm, Makadi Beach, Makadi Oasis, Makadi Saraya, Palace and Lamaya (Egypt)*

Sol y Mar: *Makadi Sun, Makadi Star & Spa, Belvedere and Solaya (Egypt)*

Grupotels: *Valparaiso Palace, Parc Natural, Gran Vista, Los Principes, Macarella, Aguait, Picafort Beach, Amapola and Grupotel Club Turquesa Mar (Spain/Balearic Islands)*

Nordotel: *Cinco Plazas, Jardin del Sol, Orquidea and Révoli (Spain/Canaries)*

Complete list:

www.tui-umwelt.com

Continuous quality improvement by means of certification

In order to achieve a continuous improvement in the quality of products under environmental aspects, the environmental management systems of the individual Group companies were continually adjusted to the requirements of international environmental standards. A permanent focus of systematic environmental improvements is directed towards the hotel companies. In 2006, 23 hotels were newly certified under ISO 14001. At year-end, the environmental management systems of a total of eleven Robinson Clubs, two Magic Life Clubs, seven Iberotels, four Nordotels, nine Grupotels, one Dorfhotel and four hotels of the Sol y Mar Group were thus certified according to ISO 14001.

Strategic partnership and cooperation schemes

In tourism, the companies supported ecological sustainability by means of their involvement in numerous bodies both in the source markets and destinations and participation in a multi-stakeholder dialogue. In shipping, the environmental protection activities for marine transports and cruises were systematically continued in international partnership schemes.

In the framework of the Sustainability Leadership Forum, initiated by B.A.U.M. (German Environmental Management Association) and the Centre for Sustainability Management at Lüneburg University, the Group continued its active cooperation with renowned pioneers in sustainable corporate development in 2006. The aim of the Forum is to secure and expand the leading position of the participating companies in this area.

In 2006, active partnership with EUROPARC Federation, the umbrella organisation of Europe's protected areas, focused on the structural, systematic implementation of the newly formulated Charter Principles. Through its active membership in the EUROPARC European Charter Evaluation Committee, TUI was directly involved in the development of cooperative nature protection measures. TUI therefore primarily supported the specific evaluation and verification processes used by independent technical experts in assessing applications for European nature reserves as 'Charter Parks'.

As before, TUI's environmental activities focused in particular on activities in the framework of TUI's biodiversity strategy in the 2006 financial year. At the eighth Conference of the Parties (COP 8) of the Convention on Preservation of Biological Diversity in Curitiba/Brazil, TUI presented a comprehensive global case study under the title 'Wildlife Watching and Tourism' in cooperation with the Secretariat of the Convention on Migratory Species (Bonn Convention).

Hapag-Lloyd was involved in the Clean Cargo Group to promote more sustainability in international transportation. In order to support protection of the oceans, in particular the Arctic and Antarctic seas, Hapag-Lloyd Kreuzfahrten cooperated with several international organisations, e.g. in the framework of the WWF Arctic Programme.

Report on Expected Developments **Action programme in tourism is being implemented. Shipping benefits through synergies.**

Economic environment

General development

Macroeconomic situation

Overall, the global economic growth observed in 2006 will continue in 2007 and 2008. However, economists expect the growth momentum to slow down slightly. The International Monetary Fund (IMF) expects global gross domestic product to account for 4.9% in 2007, a decline of 0.2 percentage points on 2006 (IMF, September 2006). High average crude oil prices and potentially increasing inflation trends in the industrialised countries as well as an associated increase in interest rate levels will remain some of the key risks for the development of the world economy. Although global economic growth will reduce slightly, the forthcoming periods are expected to show robust growth compared with the growth trend of the past few years.

Development of the regions

According to the experts' assessments, a differentiated picture emerges for the individual economic regions. Economic activity in the industrialised countries is expected to slow slightly in 2007. In the US, growth is expected to slow down in 2007, in particular due to the weakening of the residential property market and the associated burden on the formation of wealth and the propensity to consume shown by private households. A slight recovery trend is expected for 2008. For the eurozone, economic growth is expected to continue, although economic momentum will weaken slightly. A temporary slowdown in economic activity is expected for Germany, in particular, due to a decline in the propensity to consume in the wake of the restrictive fiscal policy. According to recent studies, however, the downturn is expected to be less marked and gross domestic product is expected to increase in 2007, which means that GDP will fall only slightly short of the previous year's level. This trend is expected to show only a minor dip in 2008. Strong growth is expected to continue in the Asian countries. Due to a persistently expansive investment policy, China is expected to retain high growth rates in the forthcoming periods. However, the other emerging economies in eastern Asia and India are also expected to continue the dynamic trend shown by their economies.

Expected development of gross domestic product

Variation in %	2006	2007
World	5.1	4.9
Eurozone	2.4	2.0
Germany	2.0	1.3
UK	2.7	2.7
France	2.4	2.3
US	3.4	2.9
Japan	2.7	2.1
China	10.0	10.0
India	8.3	7.3
Emerging eastern Asian economies	5.0	5.6

Source: International Monetary Fund, World Economic Outlook, September 2006

Tourism

Market trend in the divisions

The World Tourism Organization (UNWTO) forecasts growth of around 5% for the worldwide travel market for 2006. The market for holiday tours again grew more strongly than the business travel market. This trend was boosted by the increasing availability of low-cost products in the flight sector and a significant increase in the growth-driven modular market. The future development of the travel market will be influenced by a variety of factors, including economic growth and consumer sentiment, the development of crude oil prices and political stability in the destinations. Taking account of the different demand trends in the European source markets, TUI expects the European tourism market to grow by around 3% in 2007. The source market-specific package tour market will show a stable trend, while modular tours are expected to grow by up to 5%.

Shipping

The International Monetary Fund expects world trade to grow by around 8% in 2007, falling slightly short of the forecast growth level of 9% for 2006. The ongoing strong growth of world trade thus continues to provide a sound basis for dynamic growth in the shipping division. The increase in worldwide trade will benefit container shipping disproportionately since the containerisation of cargo transports is expected to continue to grow. Against this background, Global Insight expects an increase in international container transports of almost 9% to around 109 million standard containers (TEU) in 2007. This trend is not expected to weaken in 2008.

Development of results of operations

Business trend

Tourism

In the 2006 financial year, the Group recorded an increase in travel bookings, with the classical package tour market showing a stable trend. The consistent expansion of the growth segment of modular tours, in the framework of the launch of the airline and distribution platform TUIfly.com, is expected to generate a substantial increase in customers in the 2007 financial year, in particular for the German market. Due to the difficult market environment, the Northern and Western Europe sectors are expected to grow in line with the overall market. Growth drivers, in particular in the high-volume markets, will be modular bookings of tour operator products and direct bookings with the providers in the flight and hotel sector.

Turnover

The ongoing enlargement of the range of innovative products in the package tour market and the expansion of the modular tour segment are expected to generate volume growth, which in turn will create turnover growth in the tourism division. Based on turnover of around € 14 billion in the 2006 financial year, turnover growth to up to € 15 billion is targeted for the 2007 financial year. Here, too, the Central Europe sector is expected to grow above average, while the Northern Europe sector in particular will grow less strongly, in line with its volume growth.

Earnings

The earnings trend (adjusted earnings before interest, taxes and amortisation of goodwill, adjusted EBITA) for 2007 differs between the individual sectors of the tourism division. Earnings in the Central Europe sector are expected to benefit from the strong expansion of the new business segments and thus match the good 2006 level. The Northern Europe sector will see, in a changed competitive environment, a stabilization of earnings due to the restructuring measures launched in the UK and Ireland in the previous year. In the Nordic countries, the positive earnings trend is expected to continue. The Western Europe sector anticipates a positive overall profit contribution. Its earnings will only slightly be impacted by the difficult market environment in France. In the destinations sector, earnings are expected to rise, primarily due to the profitable growth in the hotel portfolio.

Earnings target for 2008

The strategic initiatives launched in the framework of the structural market changes in tourism aim to achieve a sustainable increase in earnings by the tourism division. The action programme comprises five key initiatives:

- **Flight operations:** Medium-term pooling of the TUI Group's European flight operations under the new brand and distribution platform TUIfly.com.
- **Distribution:** Expansion of web-based sales of tours and development of the TUIfly.com airline brand into an international travel platform
- **Cruise:** Entry into the growth-driven high-volume premium business of the German cruise market
- **Hotel companies:** Profitable growth through ongoing selective expansion of the Group's hotel portfolio
- **Cost structures:** Sustainable improvement in cost structures by means of a reduction in the cost of materials and personnel costs in tourism of € 250 million

Taking account of a margin risk due to the intensification of competition and the increase in crude oil prices – in particular the development of aircraft fuel prices – TUI has established an earnings target range of € 450 to 550 million for 2008.

Business trend

Shipping

Against the background of the global economic scenario, TUI expects its container shipping operations to generate growth of 8% to 9% in transport volumes for 2007 and 2008, in line with the market trend. Due to the worldwide ship capacity to be commissioned in the near future, supply and demand are not expected to balance out in all trade lanes in 2007 and 2008. Freight rates are therefore also expected to show regional

variations. Overall, TUI expects freight rates to stabilise in the second half of 2007 and pick up increasingly in 2008 in its shipping division.

Turnover

Against the background of the expected development of transport volumes and the stabilisation of average freight rates, the shipping division will achieve an increase in turnover. Based on turnover in the 2006 financial year of € 6.3 billion, an increase to just under € 7 billion will be possible in the 2007 financial year.

Earnings

Following the difficult year 2006 for worldwide container shipping operations, TUI expects to be able to generate a significantly positive earnings contribution (adjusted earnings before interest, taxes and amortisation of goodwill, adjusted EBITA by divisions) in the shipping division. The development of earnings – before special effects from the integration of CP Ships in 2006 – was primarily driven by the realisation of synergies from the completion of the operating integration process. Most of these synergies related to cost synergies, so that a significantly positive profit contribution is expected even if the weak market conditions of 2006 should continue.

Earnings target for 2008

By leveraging in 2008 the full synergy potential of € 220 million from the integration of CP Ships and through achieving the expected volume growth and the recovery of freight rates levels, TUI has an earnings target range of € 400 to 500 million for the year 2008.

TUI Group

Based on the expected increase in turnover in tourism and shipping consolidated turnover will rise from € 20 billion, the turnover generated in 2005, to just under € 22 billion.

TUI AG

Against the background of the forecast development of business and earnings of the TUI Group, TUI AG, the Group's holding company, is expected to receive sufficient inflows of earnings from its investments and from divestments already agreed for 2007 to resume payment of a dividend after the dividend in 2007 was not paid for the 2006 financial year.

Development of the financial situation

Financing

The TUI Group currently has undrawn credit lines of € 1.6 billion. These credit lines mainly serve to hold a liquidity reserve of around € 1 billion. Due to the Group's current long-term financing structure, barring the possible repayment of the convertible bond (volume: € 385 million) in December 2008, the Group does not have any further liquidity requirements in the 2007 and 2008 financial years in order to refinance short-term financing instruments. The TUI Group's net debt totalled € 3.2 billion at the balance sheet date. It will be reduced by a further € 0.3 billion at the beginning of the 2007 financial year following the agreed divestment of the Montreal Gateway Terminals. The action programme announced in December 2006 to reduce Group debt has thus been partly implemented and already generated € 0.6 billion worth of net debt reduction of a total of € 1.0 billion. In December 2006, € 0.3 billion had been generated by selling seven container ships and containers from the former portfolio of

CP Ships. The implementation of the other initiatives already announced will generate a further reduction in debt.

Investments

Due to the investment decisions already taken and planned projects, TUI expects a financial requirement of € 850 million in the 2007 financial year. These funds will almost exclusively be used for investments in property, plant and equipment. The plan requirements can be divided evenly between tourism and shipping. In the tourism division, the largest portion will be used for the expansion of the hotel sector, followed by the fleet renewal programme in flight operations. In shipping, the expansion of the container ship fleet will require most of the cash and cash equivalents. Other projects or acquisitions will only be considered and implemented if any attractive opportunities were to arise or if this will be required in the light of the business development. The planned investments will be financed from the cash flow.

Expected overall development

Overall, the macroeconomic environment is favourable for the TUI Group's activities in the 2007 financial year. This will create opportunities for further growth and potential to increase earnings. The consistent implementation of our action programme in tourism and the realisation of synergies from the integration of CP Chips into the shipping divisions with at the same time a reduction in central costs, will create a considerable improvement in consolidated earnings. The measures to reduce our capital employed already implemented or planned for the future will further enhance the Group's solid financing structure.

Hanover, 5 March 2007

The Executive Board

Frenzel

Behrendt

Engelen

Feuerhake

Mueller

Rothwell

Corporate Governance

TUI is with its corporate strategy and business model, based on the two pillars of tourism and shipping well positioned. In the future we will continue to value strong management and consistent development and implementation of the necessary business measures. The sustained enhancement of corporate value and efficiency are TUI's key strategic objectives.

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

The actions of TUI AG's management and control bodies are determined by the principles of good and responsible corporate governance. The following corporate governance report is provided by the Executive Board and at the same time on behalf of the Supervisory Board pursuant to sub-section 3.10 of the German Corporate Governance Code.

TUI has consistently based its corporate governance on the recommendations and suggestions of the German Corporate Governance Code. The Executive Board and the Supervisory Board discussed corporate governance issues several times in 2006 and jointly submitted an updated declaration of compliance for 2006 on 14 December 2006, pursuant to section 161 of the German Stock Corporation Act. The declaration was made permanently available to the general public on the Company's website.

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

Declaration of compliance

The declaration of compliance reads as follows:

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

The recommendations of the Government Commission on the German Corporate Governance Code in the version of 2 June 2005, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 21 July 2005, have been and are fully complied with.

TUI AG will additionally fully comply with the recommendations in the currently valid version of 12 June 2006, as published by the Federal Ministry of Justice on 24 July 2006.

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

We consider maintenance of uniform periods of office to be useful in order to guarantee the continuity of the work of the Supervisory Board. To date, the formation of further committees has not been necessary.

Cooperation between the Executive Board and Supervisory Board

TUI AG is a company under German law, which also forms the basis of the German Corporate Governance Code. One of the fundamental principles of

German stock corporation law is the dual management system involving two bodies, the Executive Board and the Supervisory Board, each of which are endowed with independent competences. TUI AG's Executive Board and Supervisory Board cooperate closely and in a spirit of trust to manage and control the company.

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

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

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

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

The Supervisory Board has established two committees from among its members: the Presiding Committee and the Audit Committee, which prepare and complement its work. The Presiding and Audit Committee have six members each, with an equal number of shareholder and employee representatives. Based on his practical professional experience, the chairman of the Audit Committee has special knowledge and experience in the application of accounting principles and internal control methods. There is no plan at present to set up any further committees.

Remuneration Report:
Have a look at the Management Report,
page 90

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

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

Shareholders and Annual General Meeting

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

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

The invitation to the AGM and the reports and documents required for voting are published in accordance with the provisions of the German Stock Corporation Act and provided in German and English on TUI AG's website. During the AGM the presentations given by the Chairman of the Supervisory Board and the Executive Board are transmitted live 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 use comprehensive general and company-specific reporting and monitoring systems to identify, assess and manage these risks. These systems are continually developed, adjusted to match changes in overall conditions and reviewed by the auditors. More detailed information about risk management in the TUI Group is presented in the relevant chapter of the management report.

Transparency

TUI provides immediate, regular and up-to-date information about the Group's economic situation and new developments to capital market participants and the interested public. The annual report and the interim reports are published within the applicable time-frames. The company publishes press releases and ad hoc releases, if required, on topical events and any new developments. In addition, shareholders and interested parties may subscribe to a newsletter providing up-to-date information

about the Group. All information is published simultaneously in German and English and is available in print as well as by appropriate electronic media such as e-mail or the internet. Moreover, the company website at www.tui-group.com provides comprehensive information on the TUI Group and the TUI share.

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

Directors' dealings

The Company was not informed of any notifiable purchase or sale transactions of TUI AG shares or related financial instruments by any Board members in 2006.

At the end of the 2006 financial year, the number of shares in TUI AG directly or indirectly held by members of the Executive Board and Supervisory Board exceeded 1%, the limit fixed for individually notifiable share ownership, for two Supervisory Board members. Executive Board members held a total of 2,038 shares, Supervisory Board members held 18,780,820 shares. Of these shares, Ms Carmen Riu Güell held 12,768,000 shares (indirectly), Mr Abel Matutes Juan held 6,006,000 shares (indirectly) and the remaining Supervisory Board members held 6,820 shares.

Accounting and auditing

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

The consolidated financial statements and the financial statements of TUI AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, the auditor elected by the 2006 AGM. The audit was based on German auditing rules, taking account of the generally accepted auditing standards issued by the German Auditors' Institute as well as the International Standards on Auditing. It also covered risk management and compliance with reporting requirements concerning corporate governance pursuant to section 161 of the German Stock Corporation Act. In addition, a contractual agreement was concluded with the auditors to the effect that the auditors will immediately inform the Supervisory Board of any reasons for disqualification or partiality occurring during the audit as well as of all findings or events of importance arising during the performance of the audit. In the course of the audit for the 2006 financial year there was no reason to provide such information.

Report of the Supervisory Board

In the following, the Supervisory Board reports about its activities in the 2006 financial year, in particular the plenary discussions, the work done by the committees, the compliance with the German Corporate Governance Code, the audit of the financial statements of TUI AG and the Group as well as changes in the membership of the Boards of the Company.

Cooperation between Supervisory Board and Executive Board

In the 2006 financial year, the Supervisory Board performed its duties in accordance with the law and the Articles of Association. It monitored the work of the Executive Board and regularly advised the Board on the management of the Company.

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

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

Supervisory Board and committees

The Supervisory Board has set up two committees to support its work: the Presiding Committee and the Audit Committee. The Presiding Committee prepares the resolutions and issues to be dealt with by the Supervisory Board. It also fixes the terms and condition, including the remuneration, of the contracts of employment for Executive Board members. The chairman of the Supervisory Board has regularly informed the plenary meetings about the discussions and resolutions taken by the Presiding Committee.

The Supervisory Board held five regular meetings and one constituent meeting in the 2006 financial year. The Presiding Committee also met five times, and the Audit Committee four times.

Prior to regular Supervisory Board meetings the shareholders' representatives met four times and the employees' representatives nine times in separate meetings. Seven Supervisory Board members were newly elected or appointed in 2006 and therefore attended fewer than half of the Supervisory Board meetings in the 2006 financial year. Two further Supervisory Board members also participated in fewer than half of the meetings: Dr. Ekkehard D. Schulz, who resigned from the Supervisory Board as at the end of the 2006 Annual General Meeting and therefore only attended two meetings, and Ms Marina Schmidt, who was no longer employed by a company forming part of the TUI Group after the divestment of the TQ3 Group and retired from the Supervisory Board on conclusion of 30 March 2006.

Work of the Presiding Committee

At its meeting on 25 January 2006, the Presiding Committee dealt mainly with issues relating to the Executive Board. At its meeting on 21 March 2006, convened to adopt the annual financial statements, deliberations focused on the annual and consolidated financial statements for 2005, including the Audit Committee's report on this issue, the comparison between budgeted figures and actual performance for 2005 and various amendments to the Articles of Association. On 8 May 2006 and 24 August 2006, the meetings again focused on Executive Board matters. On 14 December 2006 deliberations focused on issues relating to the Executive Board and the updated declaration on the German Corporate Governance Code.

Work of the Audit Committee

At its meeting on 17 March 2006, the Audit Committee focused its deliberations on the annual financial statements of TUI AG and the consolidated financial statements for 2005. Other issues covered included the recommendation to the Supervisory Board on the election of the auditors for the 2006 financial year as well as insurance coverage of the companies and Boards.

At its meeting on 8 May 2006, the Audit Committee mainly dealt with the interim financial statements to 31 March 2006.

One of the key items discussed at the meeting on 9 August 2006 were the interim financial statements for the end of the first half of 2006. In addition, the Audit Committee discussed the main areas to be audited in the annual audit for the 2006 financial year.

The meeting on 8 November 2006 mainly focused on the interim financial statements to 30 September 2006. The agenda also covered other issues including the internal control system, in particular Group Internal Auditing activities in the 2006 financial year and the audit plan for 2007. Auditor representatives attended all four meetings of the Audit Committee and presented reports on their activities.

Deliberations in the Supervisory Board

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

At its meeting on 25 January 2006 the Supervisory Board approved the budget for 2006 for the Group and took note of the 2007/2008 forecast accounts. A further item on the agenda was the appointment of Messrs Adolf Adrion (shipping), Christoph R. Mueller (airlines) and Karl J. Pojer (hotels & resorts) as divisional directors by the Supervisory Board. The Supervisory Board also discussed the divestment of the interest in TQ3 Travel Solutions Management Holding GmbH and dealt with shareholding issues and editorial amendments of TUI AG's Articles of Association.

The Supervisory Board meeting on 21 March 2006 focused on the reports and deliberations on the annual financial statements as per 31 December 2005, a comparison between budgeted and actual figures for 2005 and the personnel and social reports for 2005. The discussions on the annual financial statements were also attended by representatives of the auditors who were available to answer questions. Other items on the agenda for this meeting were the resolution concerning the issue of employee shares and the extension of the authorisation to acquire own shares as well as various amendments to the Articles of Association. The Supervisory Board also dealt with shareholding issues.

At the meeting on 10 May 2006, Messrs Michael Behrendt (shipping) and Peter Rothwell (tourism) were appointed TUI AG Executive Board members by the Supervisory Board, additionally this meeting served to prepare for the forthcoming ordinary Annual General Meeting. After the Annual General Meeting on 10 May 2006, the constituent meeting of the newly elected Supervisory Board was convened. The chairman and the vice-chairman of the Supervisory Board and the members and chairmen of the Presiding Committee and Audit Committee were elected at that meeting.

On 30 and 31 August 2006 the Supervisory Board met for its annual strategy meeting. The presentations and deliberations focused on the initiatives developed by the Executive Board in order to achieve a substantial and sustainable increase in the profitability of the tourism and shipping divisions. In order to secure the performance targets, a comprehensive programme for further efficiency enhancements in all sectors of the Group was adopted. In this connection, decisions were taken concerning changes in the composition of the Executive Board and divisional directors and changes in the allocation of responsibilities of Executive Board members, outlined in greater detail in the sections 'Supervisory Board' and 'Executive Board' in this chapter. Furthermore, measures were prepared in order to reduce invested capital and central costs. Following comprehensive deliberations on the strategic positioning of TUI AG as a two-pillar group, the Supervisory Board and Executive Board agreed that the publicly discussed option of a spin-off of container shipping would jeopardise consolidated assets and would not be in the interest of TUI share-

holders and employees. The meeting closed with presentations and discussions concerning the financial framework for the Group's future development and the Group's personnel and social policies.

On 25 September 2006, the Supervisory Board agreed to the divestment of the interest in Wolf GmbH – effective from 5 October 2006 – in the written circular procedure.

The meeting on 14 December 2006 focused on the measures to be taken in order to achieve the strategic goals and thus the budget for 2007 and the 2008/2009 forecast accounts. In addition, shareholding issues and investment projects had to be dealt with. Moreover, the Supervisory Board adopted the declaration of compliance with the German Corporate Governance Code.

Corporate Governance

At the meeting of 14 December 2006, the Executive and Supervisory Board discussed an update of the declaration of compliance with the German Corporate Governance Code and issued the joint declaration of compliance pursuant to section 161 of the German Stock Corporation Act. It was made permanently accessible to the public on TUI's website. Accordingly, TUI AG complies with all recommendations of the German Corporate Governance Code in its currently applicable version dated 12 June 2006. In accordance with section 3.10 of the Code and also on behalf of the Supervisory Board, the Executive Board reports about corporate governance in a separate sector (Corporate Governance Report) of this chapter.

At their meetings, both the Audit Committee and the Supervisory Board dealt with corporate governance issues within the company several times. Due to the Supervisory Board elections held in the 2006 financial year and the resulting short duration of the term of office of the new members, the Boards did not have the efficiency of their own actions examined. The next efficiency review will be carried out in 2007.

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

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, were appointed as the auditors by the Annual General Meeting held on 10 May 2006 and were commissioned by the Supervisory Board. The audit covered the annual financial statements of TUI AG as at 31 December 2006, submitted by the Executive Board and prepared in accordance with the provisions of the German Commercial Code (HGB), and the joint management report for TUI AG and the TUI Group and the consolidated financial statements for the 2006 financial year, the provisions of the International Accounting Standards Board (IASB) and complemented by the commercial-law provisions additionally required pursuant to section 315a sub-section 1. The auditors issued their unqualified audit certificate for the annual financial statements of TUI AG and the consolidated financial statements.

The financial statements, the management report and the auditors' reports were submitted to all members of the Supervisory Board. They were

discussed at the Audit Committee meeting of 17 March 2007 and the Supervisory Board meeting on 18 March 2007, at which representatives of the auditors were present and were available to answer questions.

On the basis of its own audit of the annual financial statements of TUI AG and the TUI Group, the joint management report as at 31 December 2006 and the results of the audit, the Supervisory Board approved the annual financial statements prepared by TUI AG, which were thereby adopted, the consolidated financial statements and the Group management report. The Supervisory Board also examined and approved the proposal for the appropriation of the profits for the 2006 financial year submitted by the Executive Board.

Supervisory Board and committee membership

Ms Marina Schmidt resigned from the Supervisory Board on conclusion of 30 March 2006 since she was no longer a TUI Group employee as of that date due to the divestment of the TQ3 Group. The Supervisory Board thanks her for her cooperation based on trust.

With effect from the end of the Annual General Meeting on 10 May 2006, Messrs Fritz Kollorz, Dr. Klaus Liesen, Hans-Dieter Rüter, Hartmut Schulz and Dr. Ekkehard D. Schulz resigned from the Supervisory Board. The Supervisory Board thanks the gentlemen for their commitment over many years and acknowledges their achievements.

The employees' representatives to the Supervisory Board were elected on 5 April 2006. The shareholders' representatives were elected to the Supervisory Board at the AGM on 10 May. In these elections, Messrs Jean Claude Baumgarten, Andreas Barczewski, Sepp Dieter Heckmann, Alfred Linzmeier, Roland Schneider and Henry Sieb were newly elected to the Supervisory Board. The other members of the Supervisory Board were reelected. The current term of office will expire in 2011. The constituent meeting of the new Supervisory Board took place on 10 May 2006.

At its constituent meeting on 10 May 2006, the Supervisory Board elected Dr. Jürgen Krumnow chairman and Jan Kahmann vice-chairman of the Supervisory Board. These two gentlemen therefore automatically sit on the Presiding Committee. In addition, Ms Petra Oechtering and Ms Carmen Riu Güell as well as Messrs Uwe Klein and Dr. Franz Vranitzky were elected to the Presiding Committee. Ms Ilona Schulz-Müller and Messrs Uwe Klein, Dr. Jürgen Krumnow, Dr. Dietmar Kuhnt (chairman), Dr. Manfred Schneider and Olaf Seifert were elected members of the Audit Committee.

On 5 October 2006, Mr Alfred Linzmeier resigned from the Supervisory Board after five months since he was no longer employed by a company forming part of the TUI Group after the divestment of Wolf GmbH. By resolution of the district court of Hanover of 2 November 2006, Mr Dieter Lübke was appointed to the Supervisory Board.

Executive Board and Executive Committee membership

At its meeting on 25 January 2006, the Supervisory Board appointed Messrs Adolf Adrion (shipping), Christoph R. Mueller (airlines) and Karl J. Pojer (hotels & resorts) divisional directors with immediate effect.

With effect from 10 May 2006, the Supervisory Board appointed Messrs Michael Behrendt (shipping) and Peter Rothwell (tourism) as ordinary Executive Board members in addition to the four previous members. In addition to his new function as an Executive Board member of TUI AG Mr Michael Behrendt will continue to be the Chairman of Hapag-Lloyd AG. In addition to his new Board function, Peter Rothwell will continue to be in charge of Northern Europe.

With effect from 1 September 2006, the Supervisory Board appointed Mr Christoph R. Mueller a member of the Executive Board of TUI AG, responsible for the controlling department. He will temporarily also be in charge of the management of the two German airlines Hapagfly and Hapag-Lloyd Express. Mr Sebastian Ebel, previously responsible for the controlling and tourism platforms departments, resigned from TUI AG's Executive Board as per 31 August 2006 and left the Group. The Supervisory Board thanks Mr Ebel for his work as Board member of TUI AG and in leading positions within the Group.

With effect from 1 September 2006, the Supervisory Board appointed Mr Brackx the new divisional director for the Western Europe sector. Mr Eric Debry, previously in charge of this sector, resigned from his office as divisional director of TUI AG as per 31 August 2006 and left the Group. The Supervisory Board thanks Mr Debry for his work as divisional director of TUI AG and in leading positions within the Group.

The Supervisory Board
Hanover, 18 March 2007

Dr. Jürgen Krumnow
Chairman

Supervisory Board

Annex to the Notes

Members of the Supervisory Board

Dr. Jürgen Krumnow

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

Jan Kahmann

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

Andreas Barczewski

Aircraft captain
Langenhagen
(since 10 May 2006)

Jean-Claude Baumgarten

President of the
World Travel & Tourism Council
London
(since 10 May 2006)

Jella Susanne Benner-Heinacher

Solicitor
Managing Director of Deutsche
Schutzvereinigung für Wertpapierbesitz e.V.
Düsseldorf

Sepp Dieter Heckmann

Chairman of the Executive Board
of Deutsche Messe AG
Hanover
(since 10 May 2006)

Uwe Klein

Clerk
Hamburg

Fritz Kollorz

ex. Member of the Executive Board of the
Mining, Chemical and Energy Industrial Union
Hanover
(until 10 May 2006)

Christian Kuhn

Travel agent
Hanover

Dr. Dietmar Kuhnt

ex. Chairman of the Executive Board
of RWE AG
Essen

Dr. Klaus Liesen

Honorary Chairman of the
Supervisory Board
of E.ON Ruhrgas AG
Essen
(until 10 May 2006)

Alfred Linzmeier

Software Engineer
Bruckberg
(since 10 May 2006 until 5 October 2006)

Roberto López Abad

Chief Executive of Caja de Ahorros
del Mediterráneo
Alicante

Dieter Lübke

Shipping agent
Bremen
(since 2 November 2006)

Dr. h.c. Abel Matutes Juan

Chairman of Fiesta Hotels & Resorts
Ibiza

Petra Oechtering

Travel agent
Cologne

Carmen Riu Güell

Entrepreneur
Playa de Palma

Hans-Dieter Ruster

Aircraft engineer
Langenhagen
(until 10 May 2006)

Marina Schmidt

Travel agent
Hamburg
(until 30 March 2006)

Dr. Manfred Schneider

Chairman of the Supervisory Board
of Bayer AG
Leverkusen

Roland Schneider

Business Economist
Barsinghausen
(since 10 May 2006)

Dr.-Ing. Ekkehard D. Schulz

Chairman of the Executive Board
of ThyssenKrupp AG
Düsseldorf
(until 10 May 2006)

Hartmut Schulz

Movement Controller
Langenhagen
(until 10 May 2006)

Ilona Schulz-Müller

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

Olaf Seifert

Head of the Group Controlling Department
of TUI AG
Hanover

Henry Sieb

Federal Group Leader Travel of ver.di
– Vereinte Dienstleistungsgewerkschaft
Berlin
(since 10 May 2006)

Dr. Franz Vranitzky

Chancellor (retrd.) of the Republic of Austria
Vienna

as of 28 February 2007

Committees of the Supervisory Board

Members of the Presiding Committee

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

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

Uwe Klein
Clerk
Hamburg

Dr. Klaus Liesen
Honorary Chairman of the
Supervisory Board
of E.ON Ruhrgas AG
Essen
(until 10 May 2006)

Petra Oechtering
Travel agent
Cologne
(since 10 May 2006)

Carmen Riu Güell
Entrepreneur
Playa de Palma

Hartmut Schulz
Movement Controller
Langenhagen
(until 10 May 2006)

Dr. Franz Vranitzky
Chancellor (retrd.) of the Republic of Austria
Vienna
(since 10 May 2006)

Members of the Audit Committee

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

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

Uwe Klein
Clerk
Hamburg

Dr. Manfred Schneider
Chairman of the Supervisory Board
of Bayer AG
Leverkusen
(since 10 May 2006)

Dr.-Ing. Ekkehard D. Schulz
Chairman of the Executive Board
of ThyssenKrupp AG
Düsseldorf
(until 10 May 2006)

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

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

Supervisory Board

Annex to the Notes

Other Board memberships of the Supervisory Board^{*)}

Dr. Jürgen Krumnow

(Chairman)

- a) Deutsche Bahn AG
Hapag-Lloyd AG
Lenze Holding AG²⁾
- b) Peek & Cloppenburg KG

Jan Kahmann

(Deputy Chairman)

- a) Eurogate Beteiligungs-GmbH²⁾

Jella Susanne Benner-Heinacher

- a) A.S. Création AG
K+S AG

Andreas Barczewski

–

Jean-Claude Baumgarten

–

Sepp Dieter Heckmann

- a) Arena Hannover GmbH

Uwe Klein

- a) Hapag-Lloyd AG

Fritz Kollorz

- a) DSK Anthrazit Ibbenbüren GmbH²⁾
RAG AG²⁾
Vattenfall Europe AG
Vattenfall Europe Generation
Verwaltungs-AG²⁾

Christian Kuhn

- a) TUI Deutschland GmbH

Dr. Dietmar Kuhnt

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

Dr. Klaus Liesen

- a) E.ON AG

Alfred Linzmeier

- a) Wolf GmbH

Roberto López Abad

- b) Banco Inversis Net, S.A.²⁾
CAM AEGON Holding Financiero S.L.¹⁾
CAMGE Financiera, E.F.C. S.A.,
Unipersonal¹⁾
CAMGE Holdco, S.L.¹⁾
EBN Banca De Negocios, S.A.
Gestión Tributaria Territorial, S.A.¹⁾
Lico Corporación, S.A.²⁾
Lico Leasing S.A. E.F.C.¹⁾
Mediterráneo Vida, S.A. De Seguros Y
Reaseguros, Sociedad Unipersonal¹⁾

Dieter Lübke

- a) Hapag-Lloyd AG

Dr. h.c. Abel Matutes Juan

- b) Banco Santander Central Hispano (BSCH)
EurizonVita S.p.A.

Petra Oechtering

–

Carmen Riu Güell

- b) RIUSA II, S.A.

Hans-Dieter Rüter

–

Marina Schmidt

–

Dr. Manfred Schneider

- a) Bayer AG¹⁾
DaimlerChrysler AG
Linde AG¹⁾
Metro AG
RWE AG

Roland Schneider

–

Dr.-Ing. Ekkehard D. Schulz

- a) AXA Konzern AG
Bayer AG
Deutsche Bahn AG
MAN AG¹⁾
RAG AG²⁾
RWE AG
ThyssenKrupp Automotive AG¹⁾
ThyssenKrupp Elevator AG¹⁾
ThyssenKrupp Services AG¹⁾

Hartmut Schulz

–

Ilona Schulz-Müller

–

Olaf Seifert

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

Henry Sieb

- a) TUI Deutschland GmbH²⁾
TUI Leisure Travel GmbH

Dr. Franz Vranitzky

- b) Magna International Corp.

^{*)} Information refers to 31 December 2006 or date of resignation from the Supervisory Board of TUI AG in 2006

¹⁾ Chairman

²⁾ Deputy Chairman

a) Membership in Supervisory Boards required by law

b) Membership in comparable Boards of domestic and foreign companies

Executive Board

Annex to the Notes

Executive Board of TUI AG

Dr. Michael Frenzel
Chairman

Michael Behrendt
Shipping
(since 10 May 2006)

Sebastian Ebel
Controlling
(until 31 August 2006)

Dr. Peter Engelen
Human Resources and Legal Affairs

Rainer Feuerhake
Finance

Christoph R. Mueller
Controlling
(since 1 September 2006)

Peter Rothwell
Tourism
(since 10 May 2006)

Executive Committee

Executive Board Members

Dr. Michael Frenzel
Chairman

Michael Behrendt
Shipping
(since 10 May 2006)

Sebastian Ebel
Controlling
(until 31 August 2006)

Dr. Peter Engelen
Human Resources and Legal Affairs

Rainer Feuerhake
Finance

Christoph R. Mueller
Controlling
(since 1 September 2006)

Peter Rothwell
Tourism
(since 10 May 2006)

Divisional Directors

Dr. Volker Böttcher
Central Europe sector

Peter Rothwell
Northern Europe sector

Eric Debry
Western Europe sector
(until 31 August 2006)

Bart Brackx
Western Europe sector
(since 1 September 2006)

Christoph R. Mueller
Airline sector
(since 25 January 2006 until 31 August 2006)

Karl J. Pojer
Hotels & Resorts sector
(since 25 January 2006)

Michael Behrendt
Shipping sector
(until 10 May 2006)

Adolf Adrion
Shipping sector
(since 25 January 2006)

Other board memberships of the Executive Board^{*)}

Dr. Michael Frenzel

(Chairman)

- a) AWD Holding AG
- AXA Konzern AG
- Continental AG
- E.ON Energie AG
- Hapag-Lloyd AG¹⁾
- Hapag-Lloyd Fluggesellschaft mbH¹⁾
- TUI Deutschland GmbH¹⁾
- Volkswagen AG
- b) Norddeutsche Landesbank
- Preussag North America, Inc.¹⁾
- TUI China Travel Co. Ltd.

Michael Behrendt

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

Sebastian Ebel

- a) Hapag-Lloyd Fluggesellschaft mbH
- TUI Deutschland GmbH
- TUI Leisure Travel GmbH
- b) RIUSA II S.A.
- TUI Belgium N.V.
- TUI España Turismo S.A.
- TUI Nederland N.V.

Dr. Peter Engelen

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

Rainer Feuerhake

- a) Hapag-Lloyd AG
- Hapag-Lloyd Fluggesellschaft mbH
- TUI Deutschland GmbH
- b) Amalgamated Metal Corporation PLC
- Preussag North America, Inc.

Christoph R. Mueller

- a) Hapag-Lloyd AG
- b) Jetair N.V.
- TUI Belgium N.V.

Peter Rothwell

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

^{*)} Information refers to 31 December 2006 or date of resignation from the Executive Board of TUI AG in 2006

¹⁾ Chairman

²⁾ Deputy Chairman

a) Membership in Supervisory Boards required by law

b) Membership in comparable Boards of domestic and foreign companies

TUI share 2006 – Share price affected by difficult market environment in shipping.

The 2006 stock exchange year was characterised by a good start, temporarily followed by fear of a slowdown in world economic activity emerging towards mid-2006. In the second half of the year, good performance figures of the companies, declining fear of recession in the US and positive economic forecasts for 2007 caused stock price indices to move higher across the board.

Against this backdrop, the German Share Index (DAX) initially rose by more than 10% until May. Following a short period of weakness triggered by inflation jitters in mid-2006, however, the DAX then again gathered momentum. From a closing rate of 5,408 points at the end of 2005, it grew by 22.0% and closed the year 2006 at 6,597 points. It thus only slightly missed its highest level since February 2001.

TUI share – development of share price in 2006

The TUI share price declined in the course of 2006. Compared with the DAX, the TUI share showed a weaker performance. From a 2005 closing rate of € 17.30, the share price reached its annual high of € 18.40 in early January. In the course of the year, the price was notably impacted by the adjustments of the profit forecasts, due in particular to the difficult market environment in shipping. Following its low of € 14.51 in mid-August, the share price recovered to € 15.14 at the end of the year, down 12.5% year-on-year.

Fluctuations in share price

■ TUI share in €
 ■ DAX

TUI share price compared with the DAX (2006)



Long-term development of TUI share price

€	2002	2003	2004	2005	2006
Highest share price	33.12	16.02	19.04	20.47	18.40
Lowest share price	13.02	7.22	12.05	16.10	14.51
Year-end share price	15.05	15.39	16.22	17.30	15.14

Quotations, indices and trading

The TUI share is officially traded on all German trading floor systems and in the Xetra electronic trading system. No companies with similar operations in tourism and shipping are listed in the German stock market. Several European competitors in the tourism sector such as MyTravel, First Choice, Club Méditerranée and Kuoni are traded on stock markets in the UK, France and Switzerland. In the shipping sector, listed international competitors include AP Møller-Maersk in Denmark, Evergreen Marine in Taiwan, Cosco Shipping in China and NYK Lines in Japan.

TUI share in the DAX30 and prime standard

The TUI share has been included in the DAX 30 – the German Stock Index – since 1990. When the composition of the index was reviewed in December 2006, it ranked 25th in terms of turnover in TUI shares and 34th in terms of market capitalisation. At that point in time, the TUI share had a weighting of 0.50% in the DAX. Since its introduction in January 2003, TUI has been a member of the prime standard of Deutsche Börse and therefore meets the high international transparency standards of this segment over and above legal requirements.

The TUI share is included in several industry indices in the German stock market and at European level: these include the European sub-indices Dow Jones Travel & Leisure Titans 30 and Dow Jones Euro Stoxx Travel & Leisure. Its year-end weightings were 1.24% and 7.13%, respectively. Moreover, the TUI share is listed in the FTSE Eurotops 300 index. In terms of sustainability indices, the TUI share is listed in FTSE4Good, ASPI (Advanced Sustainable Performance Indices) and ESI (Ethibel Sustainability Index) and was newly admitted to the Dow Jones Sustainability World Index in 2006. In the German stock market, it is, inter alia, included in the calculation of the DAXplus Export Strategy.

Information on the TUI share

31 December 2006

WKN	TUAG00
ISIN	DE000TUAG000
Stock category	Registered ordinary shares
Capital stock	€ 641,722,069.41
Number of shares	251,019,855 units
Market capitalisation	€ 3,800,440,605

Trading in TUI shares up on the previous year

In 2006, trading in TUI shares again rose substantially. On average, 3,588,023 no-par value shares were traded per day, an increase of more than 60% year-on-year. The total trading volume amounted to 914.6 million no-par value shares. The number of option contracts on TUI shares traded on the European futures and options exchange EUREX rose by 165% to 15,582 contracts per day, i.e. a total of 3,973,370 contracts.

Employee shares

Capital stock and number of shares

In December 2006, TUI AG's capital stock rose by a further € 734,420 due to the issuance of 287,280 employee shares. At the balance sheet date, it therefore totalled € 641,722,069, comprised of 251,019,855 no-par value shares, certificated by a global certificate. The pro-rated share capital attributable to each individual share was approx. € 2.56. Apart from subscribed capital, there was both authorised and conditional capital, outlined in the notes on the consolidated financial statements.

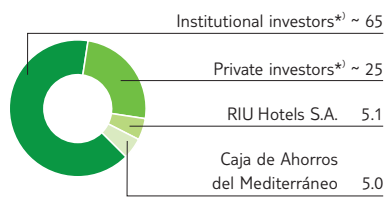
2003/2008 convertible bond

In 2006, no bonds were converted from the 2003/2008 convertible bond. Investors therefore held conversion rights for a total of 19,385,784 TUI shares at the balance sheet date.

Resolutions of the 2006 Annual General Meeting

The 2006 Annual General Meeting was held in Hanover on 10 May 2006. Approx. 3,200 shareholders and shareholder representatives, representing 37.7% of the capital stock for voting purposes, participated in the AGM. Besides the formal ratification of the acts of the Executive and Supervisory Boards and the adoption of a resolution on the appropriation of profits from the 2005 financial year, the agenda also included the election of shareholder representatives to the Supervisory Board, the renewal of the conditional and authorised capital and the acquisition of own shares in accordance with section 71 sub-section 1 no. 8 of the German Stock Corporation Act (AktG). In the 2006 financial year, the authorisation to purchase own shares was not used.

Shareholder Structure (in %)



As of December 2006

* free float

Shareholder structure

As in 2005, around 90% of the TUI shares floated freely in 2006. Around 25% of these shares were held by private shareholders while the majority, around 65%, were held by institutional investors. According to an evaluation of the shareholders' ledger, these were mainly investors from Germany and other EU countries.

According to the notifications pursuant to section 26 sub-section 1 of the German Securities Trading Act (WpHG), around 10% of TUI shares were held by shareholders owning more than 5% of all shares. One of them was the RIU family via its stake in the Spanish RIU Hotels S.A., which held 5.1% of TUI shares. The other one was another Spanish investor, Inversiones Cotizadas del Mediterráneo, S.L., a shareholding of Caja de Ahorros del Mediterráneo, which held 5.0% of the shares in TUI.

Dividend

Dividend and yield ratios

TUI AG reported net profit for the year of € 104 million and retained profit brought forward of € 2 million. Following the transfer of € 52 million to revenue reserves, profit available for distribution amounted to € 54 million. Against the background of the deterioration of the earnings situation in 2006, in particular in shipping, a proposal will be submitted to the Annual General Meeting to carry the profit available for distribution forward on new account. For the 2007 financial year, a significant rise in earnings is expected so that the dividend payment is expected to be resumed in 2007.

Development of earnings and dividends of the TUI share

€	2002	2003	2004	2005	2006
Earnings per share	0.18	1.54	2.96	2.28	- 3.66
Dividend	0.77	0.77	0.77	0.77	0.00

Stock yield

As before, the TUI share was an attractive investment for yield-oriented investors in 2006 despite the unsatisfactory share price trend. A TUI shareholder who purchased shares at the beginning of the year generated a dividend yield of 4.5%. Shareholders with longer-term exposure who, for instance, invested the equivalent of € 500 in then Preussag shares in 1990, exercised their subscription rights and reinvested their dividend yields, held a TUI share portfolio worth € 916 at the balance sheet date. Their average annual return was almost 4.0%.

Rating

Rating

As before, the international rating agencies Standard & Poor's and Moody's again rated TUI's financial strength in 2006 and early 2007. The currently difficult market environment, in particular in shipping, caused an adjustment of the long-term credit rating, which currently stands as follows:

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

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

Investor Relations

In 2006, the activities of the Investor Relations team focused on up-to-date information and open communication with shareholders, analysts, institutional investors and lenders. Debates with these stakeholder groups centred on Group strategy and business trends in the individual sectors in order to enable them to make a realistic assessment of TUI's future development. The Executive Board met analysts and investors at regular roadshows in Europe and America, at one-on-one meetings and at the analysts' meeting on the occasion of the presentation of the annual financial statements for 2005 in March 2006 as well as the announcement of the strategic decisions in December 2006. Conference calls were implemented and met with a high level of interest every time an interim report was submitted. Another forum for ample discussion with the shareholders was the 2006 Annual General Meeting.

In addition, the Investor Relations website was expanded so as to include a new internet tool which shareholders may now use on the Investor Relations website to register for the Annual General Meeting, order a guest card and instruct one of the proxies provided by the Company. This service was well received, with approx. 20% of shareholders ordering their admission tickets via the new internet tool.

TUI Group in Figures

TUI Group in Figures

		2002	2003	2004	2005	2006
Turnover						
Tourism	€ million	12,416	12,671	13,319	14,097	14,084
Shipping	€ million	2,225	2,381	2,687	3,834	6,254
Other	€ million	5,661	4,163	2,040	1,688	578
Group	€ million	20,302	19,215	18,046	19,619	20,916
Earnings before interest, tax, depreciation and amortisation (EBITDA)						
Tourism	€ million	614	532	678	734	781
Shipping	€ million	212	343	392	454	212
Other	€ million	675	847	407	192	- 24
Group	€ million	1,501	1,722	1,477	1,380	969
Earnings by divisions (EBITA)						
Tourism	€ million	309	200	345	365	394
Shipping	€ million	120	266	300	319	- 106
Other	€ million	376	606	267	166	- 56
Group	€ million	805	1,072	912	850	232
Group profit for the year	€ million	41	315	572	496	- 847
Earnings per share	€	0.18	1.54	2.96	2.29	- 3.66
Assets						
Non-current assets	€ million	12,019	10,271	9,871	11,883	10,141
Current assets	€ million	3,498	2,718	2,499	3,491	2,873
Total assets	€ million	15,517	12,989	12,370	15,374	13,014
Equity and liabilities						
Equity	€ million	3,180	2,767	2,660	4,367	3,010
Non-current liabilities	€ million	4,516	4,204	5,153	5,288	5,262
Current liabilities	€ million	7,021	6,018	4,557	5,719	4,742
Total equity and liabilities	€ million	15,517	12,989	12,370	15,374	13,014
Equity ratio	%	20.5	21.3	21.5	28.4	23.1
Cash flow from operating activities	€ million	1,391	902	964	965	467
Investments	€ million	1,063	724	677	1,138	750
Net debt	€ million	5,445	3,828	3,251	3,807	3,211
Employees	31 Dec	70,299	64,257	57,716	62,947	53,930

Sustainable Development **Social responsibility** **for employees. Environmental quality manage-** **ment and climate protection by means of** **energy efficiency. Corporate citizenship.**

For TUI, sustainable development means continuously balancing economic, ecological and social concerns. This secures the Group's competitiveness, promotes the potential of its employees, strengthens cooperation with social stakeholder groups and ensures lasting enhancements of the efficient use of natural resources at the corporate sites and in the holiday destinations.



TUI's convincing sustainability performance in 2006 was confirmed by international rating agencies and sustainability analysts: TUI AG was the world's only tourism company in the travel & tourism sub-sector admitted to the Dow Jones Sustainability Index (DJSI) World. TUI also defended its position in other international ethics indices. In addition, TUI joined the 'European Alliance for Corporate Social Responsibility' in order to bundle the specific sustainability potential of companies and industry at a European level and promote the international development towards sustainability.

Employees

Highly committed and motivated employees who are well qualified for their work are the key to success of a company. Promoting employees is one of the main areas of the Group's HR activities.

Initial, ongoing and further training

Junior staff development and good internal training are indispensable elements in order to ensure the competitiveness of a company. In Germany, the companies of the TUI Group newly filled 257 initial training placements. A total of 718 young employees participated in training schemes in 2006. At around 6.5%, the proportion of staff in training was thus kept at the previous year's high level. TUI continued to participate in the 'Fit for a job application' project in 2006. In the framework of this project, TUI HR managers supported young people in compiling their job application documents and preparing for job interviews.

*Junior staff development
and training*

*Development of senior
and executive staff*

One of the key tasks of central HR development is the development and long-term retention of technical and executive staff at all management levels. The range of programmes offered was expanded again in 2006. An international procedure for personal skills assessment was offered to lower management functions, while a systematic process of selective development measures based on a capability analysis was initiated for Germany's top management functions. Next year, this process will also be applied on a worldwide scale. The international trainee programme and the promotion programmes for middle management functions were expanded, focusing on the participants' personal development.

Pension schemes

Social responsibility

The companies of the TUI Group offer their employees many different ways of participating in company-based and private pension schemes. Individual national conditions and the economic situation are taken into account in the design of the models. Schemes offered to employees in Germany included pension fund contracts, direct insurance schemes and private pension insurance funds qualifying for state co-sponsorship (Riester pension). In addition, deferred-compensation models were offered, under which employees were able to choose their pension scheme according to their individual preferences. Demand for these schemes rose in 2006.

Part-time early retirement

In German Group companies, approx. 400 employees worked under part-time early retirement contracts in the 2006 financial year. The resulting entitlements of these employees were hedged against insolvency of the employer, irrespective of the effective date of the part-time early retirement contract. TUI thus went substantially beyond the minimum standard required under the amended German part-time early retirement legislation, adopted in 2004, for the benefit of its employees. TUI provided approx. € 13.5 million in the 2006 financial year for this purpose.

Health promotion

In 2006, TUI signed the Luxemburg Declaration on Workplace Health Promotion in the European Union. Like the Group's own guidelines, this declaration aims to promote health at the workplace. All health-related issues are discussed at Group level via TUI's health network. In addition, the Group has a national work-health-environment committee as well as local health and safety committees, for which employer and employee representatives meet several times a year. In addition, TUI has joined the German Network for Company-Level Health Promotion.

Under the heading 'Fit with TUI', a health programme was put together for Group employees. The companies of the TUI Group offered their employees various initiatives concerning different issues such as target group-specific health seminars, programmes for the prevention of addictive behaviour, cancer prevention or cardiovascular check-ups.

Company health insurance fund

BKK TUI, whose administrative costs only amounted to around 3% of total expenses in 2006 (national average: around 6%) had a substantial number of new members in the financial year under review. Given its very good price/performance ratio and a contribution rate of 12.6%, undercutting the national average, its membership rose from around 10,800 to more than 12,000 in the course of the year. The BKK offered highly attractive products such as BKK FamilyPlus, which supports health activities within families by means of a contribution bonus.

Health and safety

The Group companies again implemented a large number of health and safety activities. These activities included the preparation of hazard analyses, workplace visits and participation in the preparation of escape and emergency schemes but also the organisation of driver safety training schemes in order to minimise accidents on the way to work.

Work-life balance

In terms of external activities, TUI is one of the founding members of the national network 'Success factor family'. All companies of the TUI Group

offer a large variety of programmes in order to actively support a work-life balance. TUI offers for instance flexitime, part-time and telework schemes for all employees. At Group level, part-timers account for around 21% of the workforce. In addition, German employees are free to extend their statutory parental leave by one extra year or go on unpaid leave in order to take care of a family member in need of care.

Female employees account for around 65% of the Group's workforce. During pregnancy and parental leave, employees are offered personal consultation concerning any questions related to their return to working life any time. Access to internal information sources such as the intranet and use of voluntary social benefits such as special rates for holiday tours is to be taken for granted, as is the possibility of participating in further training schemes. In addition, employees on parental leave are offered the opportunity to fill in as substitutes so as to remain involved in current corporate activities. Reapplications by employees who have not immediately returned to their jobs following the end of their parental leave are given priority over external applications if qualifications are equal. At the Hanover site, a company-run full-time day crèche was opened in 2006. This represented a major step towards encouraging employees to rapidly return to their jobs.

***Employee representation
within the Group***

In the TUI Group, both national and international workers' representative schemes existed within individual Group companies and at Group level. In cooperation with the Executive Board and the management of the companies, solutions were found for strategic, organisational and operational decisions that also entailed headcount reductions, taking account of the interests of employees and management in a fair and balanced way.

TUI European Forum

The TUI European Forum, established in 1995 in addition to the statutory employee representative bodies required under national legislation, currently comprises 52 workers' representatives from 17 European countries. Group management regularly briefs the Select Committee of the TUI European Forum and discusses the current economic and HR situation within the Group with it. The TUI European Forum meets once a year and renders a significant contribution at international level to the transparency of major entrepreneurial decisions and the integration of different nationalities within the TUI Group.

Environmental management

The TUI Group's overall entrepreneurial action is largely determined by environmental aspects and the incorporation of environmental quality standards into business processes.

In the Good Company Ranking 2006, published by 'manager magazin' at the beginning of 2007 and covering the 120 largest European groups, TUI came out as the best company in the environmental category. The criteria applied in the environmental category included the company's overall ecological performance, the consideration of environmental aspects along the value chain, ecological innovation as well as dialogue and cooperation with public stakeholder groups.

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

Climate protection through energy efficiency

Through the detailed monitoring of aircraft, ships and hotels, the Group obtained fundamental information on fuel efficiency and associated emissions again in 2006. Particularly energy-efficient processes were applied to the entire aircraft fleet by means of a standardisation of flight processes and procedures. Due to the ongoing aircraft renewal programme the average aircraft age amounted to 10.1 years; this helped to stabilise the fuel consumption. Through joint fuel efficiency workshops, TUI began to develop more ways of promoting fuel efficiency and thus reduce specific greenhouse gas emissions.

In addition, TUI participated intensely in the debates concerning the integration of air transportation into the European emissions trading scheme (EU-ETS), conducted within the aviation and industry associations. Moreover, TUI participated in the 'Carbon Disclosure Project 4', which compiled detailed information about TUI's climate policy and the climate effects of its operations. Thomsonfly closely cooperated with the 'Sustainable Aviation' initiative in the UK which jointly prepares strategies for sustainable aviation in cooperation with other leading aviation companies in the UK.

In shipping, emission-efficient drive systems were used for newly commissioned vessels, resulting in a reduction in fuel consumption per TEU and nautical mile. In addition, alternative underwater coatings were tested and monitored for their effects on the resistance of floating vessels.

Preservation of biodiversity

TUI carried out a large number of activities to promote protection of marine turtles in TUI destinations in the UNEP Year of the Turtle 2006. For 2007, the Year of the Dolphin, an integrated protection and information campaign was developed and presented to the international public at the UN campus in Bonn. The aim of these projects is to preserve and protect marine mammals with the support of local inhabitants and tourists.

In the UK, TUI again supported various activities for the preservation of biodiversity and the protection of endangered species. For many years, Thomsonfly has sponsored the UNEP project 'Great Apes Survival Project' by the 'Bornfree Initiative'. In the destinations TUI participated in reforestation and population determination measures such as those conducted by the incoming agency Pollman's in the Tsavo National Park in Kenya or by TUI Nordic on the Canary Islands.

Specific activities in the destinations

Worldwide, TUI Deutschland encourages the competition for successful environmental management among its hotel partners by means of TUI Environmental Champion awards. Participation in the competition is conditional on participation in TUI's environmental monitoring scheme for hotels and compliance with TUI's minimum standards for environmental quality. As before, the most successful hotel chain in 2006 was Robinson with 20 clubs receiving an award. In the scoring category for individual hotels, Iberotel Sarigerme Park in Turkey won the award for the tenth time in succession. Thomson (TUI UK) introduced the 'Green Medals' as an environmental quality competition in its brochures and awarded medals to fifteen outstanding hotels in 2006.

*Partnership with UNEP = United Nations
Environment Programme*

*Environmental quality
in TUI hotel*

*Environmental quality
label 'EcoResort'*

In cooperation with Group environmental management, TUI Hotels & Resorts awarded the environmental quality label 'EcoResort' for Group-owned hotel chains for the first time in the 2006 financial year, following a review by external environmental experts. In order for a hotel chain to be awarded the label, it has to meet a number of criteria including high health and quality standards, sustainable development activities, a high level of eco-efficiency and a certified environmental management system. Fifteen Group-owned hotel and club facilities were awarded the 'EcoResort' label for the 2006/2007 winter brochures. The aim of the quality label is beside ecological quality assurance to promote sustainable development in the holiday regions.

Social responsibility

TUI AG and its subsidiaries attach great importance to being good corporate citizens at their worldwide sites and in the holiday destinations. As before, Group activities in 2006 focused on support for disadvantaged children and young people, and on the promotion of education, research, culture and sports.

Reconstruction aid in the Tsunami-stricken areas

The projects launched in Sri Lanka in 2005, implemented in cooperation with the incoming agency Aitken Spence and the DRV association 'Aid without frontiers', were successfully completed. Around 100 families obtained new homes and a basis for their future livelihood. The new village built for 200 families in cooperation with Plan International Deutschland was officially opened in October 2006 (www.tui-aid.com). In Sri Lanka, Nouvelles Frontières supported the organisation 'Réconstruire et vivre' in building 40 bungalows and two kindergartens. TUI Nordic supported the Takuapa Senanuku School in Kao Lak in Thailand, sponsoring books and teaching materials.

Support for disadvantaged children and young people

TUI UK employees continued their sponsorship, initiated in 2005, for the Macmillan Cancer Relief aid organisation which takes care of children with cancer and their relatives. At the Hanover site, the sponsorship scheme run by employees of TUI companies for many years now benefited the children's relief organisation 'Hilfe für hungernde Kinder' in 2006.

Sponsorships

*Promotion of
non-profit organisations*

More than 300 TUI Leisure Travel travel agencies collected around € 20,000 for the '6 villages for 2006' project of 'SOS Kinderdörfer', contributing to the establishment of new children's villages in Brazil, Mexico, Nigeria, South Africa, Ukraine and Vietnam. For the fourth time in succession, TUI Austria and TUI AG supported the international adventure and education network 'Kids for Freedom' (K4F). Around 60 deprived children from seven nations were offered a sailing trip in Turkey with trained youth workers. As before, the RTL sponsorship marathon was actively supported by the Group in 2006. Hapagfly staff collected around € 140,000 with air passengers for various child aid projects. Several group companies in the tourism division also continued their worldwide activities to protect children against sexual abuse, e.g. by supporting the ECPAT organisation. Hapag-Lloyd continued its long-standing sponsorship schemes for children in China in cooperation with the aid organisation Plan International.

The monthly contributions are used to finance community projects, schools, wells and basic health care in the children's villages.

**Projects and initiatives
in the destinations**

All tourism companies of the TUI Group particularly focused on activities in the destinations. Hapagfly carried around 17 tonnes of medical aid goods to Sudan for the German Red Cross (DRK). In addition, the airline collected around € 50,000 on its flights, also benefiting DRK projects. RIU and TUI Deutschland supported the modernisation and expansion of the primary school Kim Barosa in the Cape Verde islands. In Kenya, TUI sponsored two youth clubs which inform young people, among others, about AIDS. TUI Dominicana supported the Patria Foundation, which is establishing an internet library for children and adults in Puerto Plata. Another project sponsored in the Dominican Republic was a project to fight poverty, launched by TUI Nordic in cooperation with the Cordaid organisation. In cooperation with Tourism for Development (TFD), Nouvelles Frontières supported various projects in Kenya, Tanzania, Morocco, Brazil, Cambodia and the Dominican Republic.

TUI Foundation

More information
■ www.tui-stiftung.de

Activities by the Foundations

Sponsorship of the scientific research activities accompanying the project 'Prevention by means of early promotion' for children from highest-risk families by the Criminological Research Institute of Lower Saxony was intensified. Thanks to sponsorship of the 2006 training campaign, ten additional vocational training placements were created for disadvantaged young people. In addition, the TUI Foundation supported the START project run by the non-profit Hertie Foundation, promoting particularly talented pupils with a migration background. In terms of the sponsorship of scientific projects, the Rudolf Schoen Award was awarded for the nineteenth time in 2006 to honour the best scientific publication at the Medical University of Hanover.

Hapag-Lloyd Foundation

More information
■ www.hapag-lloyd.de

Cooperation with selected partners at the Hamburg site was continued in 2006. The promotion of young artists and talents played an essential role. Outstanding projects included sponsorship of 'Junges Schauspielhaus' in Hamburg, the St. Pauli Theatre, the Young Music Theatre Forum and the restoration training placement for Hamburg-based museums.

Scientific cooperation schemes

More information
■ www.tui-campus.de

TUI attaches particular importance to the promotion of innovation in the tourism sector and close cooperation with universities and research institutions. In 2006, the Group founded TUI Campus, a scientific network initiative. In the framework of this project, symposia will be organised twice a year to bring experts and practitioners together for an exchange of information and views concerning issues related to tourism and communication science.

Financial Statements

TUI has introduced a comprehensive programme aiming to cut debt and optimise its financing structures. This includes the divestments of peripheral activities and the further optimisation of assets. Combined with the cost-cutting measures in tourism and cash-flow from operating activities, this strategy will contribute to a further reduction in Group debt and will lead to a further strengthening of the Group's finances.

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Profit and Loss Statement of the TUI Group for the period from 1 January 2006 to 31 December 2006

€ million	Notes	2006	2005 restated	Restatement	2005 original
Turnover	(1)	20,514.6	18,201.3	–	18,201.3
Other income	(2)	749.0	603.8	+ 1.3	602.5
Change in inventories and other own work capitalised	(3)	+ 10.7	– 3.2	–	– 3.2
Cost of material and purchased services	(4)	15,495.5	12,900.3	–	12,900.3
Personnel costs	(5)	2,435.4	2,304.2	–	2,304.2
Depreciation and amortisation	(6)	667.4	504.9	– 0.2	505.1
Impairment	(7)	763.8	18.3	–	18.3
Other expenses	(8)	2,517.4	2,489.5	+ 0.1	2,489.4
Financial income	(9)	226.7	185.0	–	185.0
Financial expenses	(10)	408.1	421.9	–	421.9
Result from companies measured at equity	(11)	+ 50.5	+ 39.1	–	+ 39.1
Earnings before taxes on income		- 736.1	+ 386.9	+ 1.4	+ 385.5
Income taxes	(12)	+ 127.6	+ 86.8	– 0.1	+ 86.9
Result from continuing operations		- 863.7	+ 300.1	+ 1.5	+ 298.6
Result from discontinuing operations	(13)	+ 17.1	+ 196.2	–	+ 196.2
Group profit/loss for the year		- 846.6	+ 496.3	+ 1.5	+ 494.8
Group profit for the year attributable to shareholders of TUI AG	(14)	– 893.3	+ 458.0	+ 1.3	+ 456.7
Group profit for the year attributable to minority interests	(15)	+ 46.7	+ 38.3	+ 0.2	+ 38.1
Group profit/loss for the year		- 846.6	+ 496.3	+ 1.5	+ 494.8

€	Notes	2006	2005 restated	Restatement	2005 original
Basic earnings per share	(16)	- 3.66	+ 2.29	+ 0.01	+ 2.28
from continuing operations		– 3.73	+ 1.32	+ 0.01	+ 1.31
from discontinuing operations		+ 0.07	+ 0.97	–	+ 0.97
Diluted earnings per share		- 3.66	+ 2.17	+ 0.01	+ 2.16
from continuing operations		– 3.73	+ 1.28	+ 0.01	+ 1.27
from discontinuing operations		+ 0.06	+ 0.89	–	+ 0.89

Balance Sheet of the TUI Group as at 31 December 2006

€ million	Notes	31 Dec 2006	31 Dec 2005 restated	31 Dec 2005	
				Restatement	original
Assets					
Goodwill	(17)	3,134.8	3,836.2	+ 79.8	3,756.4
Other intangible assets	(18)	604.9	863.5	- 35.0	898.5
Investment property	(19)	95.7	90.2	–	90.2
Property, plant and equipment	(20)	5,145.7	5,882.2	+ 1.2	5,881.0
Companies measured at equity	(21)	407.7	372.7	–	372.7
Financial assets available for sale	(22)	117.3	122.9	–	122.9
Trade accounts receivable and other receivables	(23)	351.7	364.9	–	364.9
Derivative financial instruments	(24)	7.8	51.1	–	51.1
Current and deferred income tax claims	(25)	275.6	299.4	–	299.4
Non-current assets		10,141.2	11,883.1	+ 46.0	11,837.1
Inventories	(26)	129.3	150.4	–	150.4
Financial assets available for sale	(22)	5.8	5.8	–	5.8
Trade accounts receivable and other receivables	(23)	1,778.0	1,856.5	–	1,856.5
Derivative financial instruments	(24)	76.2	149.1	–	149.1
Current and deferred income tax claims	(25)	23.4	15.6	–	15.6
Cash and cash equivalents	(27)	688.7	599.2	–	599.2
Assets held for sale	(28)	171.4	714.7	–	714.7
Current assets		2,872.8	3,491.3	–	3,491.3
		13,014.0	15,374.4	+ 46.0	15,328.4

€ million	Notes	31 Dec 2006	31 Dec 2005 restated	31 Dec 2005	
				Restatement	original
Equity and liabilities					
Subscribed capital	(29)	641.7	641.0	–	641.0
Capital reserves	(30)	2,396.2	2,385.0	–	2,385.0
Revenue reserves	(31)	- 597.9	783.8	- 8.4	792.2
Hybrid capital	(32)	294.8	294.8	–	294.8
Equity before minority interests		2,734.8	4,104.6	- 8.4	4,113.0
Minority interests	(33)	275.5	262.2	–	262.2
Equity		3,010.3	4,366.8	- 8.4	4,375.2
Pension provisions and similar obligations	(34)	1,056.1	1,260.8	–	1,260.8
Current income tax provisions	(35)	177.0	195.4	+ 51.8	143.6
Deferred income tax provisions	(35)	60.1	144.4	- 5.4	149.8
Other provisions	(35)	435.5	401.9	–	401.9
Non-current provisions		1,728.7	2,002.5	+ 46.4	1,956.1
Financial liabilities	(36)	3,477.6	3,213.9	–	3,213.9
Derivative financial instruments	(38)	27.0	32.1	–	32.1
Other liabilities	(39)	28.3	39.4	–	39.4
Non-current liabilities		3,532.9	3,285.4	–	3,285.4
Non-current provisions and liabilities		5,261.6	5,287.9	+ 46.4	5,241.5
Pension provisions and similar obligations	(34)	29.0	32.8	–	32.8
Current income tax provisions	(35)	87.8	19.8	–	19.8
Other provisions	(35)	575.9	601.0	+ 33.0	568.0
Current provisions		692.7	653.6	+ 33.0	620.6
Financial liabilities	(36)	422.0	1,144.3	–	1,144.3
Trade accounts payable	(37)	1,958.4	2,078.7	- 25.0	2,103.7
Derivative financial instruments	(38)	116.2	41.0	–	41.0
Other liabilities	(39)	1,550.7	1,513.6	–	1,513.6
Current liabilities		4,047.3	4,777.6	- 25.0	4,802.6
Liabilities related to assets held for sale	(40)	2.1	288.5	–	288.5
Current provisions and liabilities		4,742.1	5,719.7	+ 8.0	5,711.7
		13,014.0	15,374.4	+ 46.0	15,328.4

Statement of Recognised Income and Expenses

€ million	2006	2005 restated
Currency translation	- 216.7	175.1
Recognition of differences from currency translations in profit or loss	68.4	–
Change in value of companies measured at equity with no effect on profit or loss	- 11.8	–
Changes in the fair value of available for sale financial instruments	15.1	- 0.1
Recognition of available for sale financial instruments in profit or loss	–	- 0.6
Changes in the fair value of cash flow hedges	- 237.4	102.9
Recognition of results of cash flow hedges in profit or loss	- 109.0	92.0
Actuarial gains and losses from pension provisions and associated fund assets	183.7	- 297.6
Tax item directly offset against equity	64.7	23.5
Income and expenses directly recognised in equity	- 243.0	95.2
Group profit/loss	- 846.6	496.3
Total income and expenses recognised in the financial year	- 1,089.6	591.5
attributable to shareholders of TUI AG	- 1,123.9	543.7
attributable to minority interest	34.3	47.8

Cash Flow Statement

€ million	Notes	2006	2005 restated	Var.
Group profit/loss		- 846.6	494.8	- 1,341.4
Depreciation, amortisation and impairments (+)/write-back (-)		1,448.7	529.8	918.9
Other non-cash expenses (+)/income (-)		- 13.0	- 59.3	46.3
Interest expenses (excl. interest relating to pension obligations)		272.1	278.2	- 6.1
Profit (-) / Loss (+) from disposals of non-current assets		- 275.5	- 182.1	- 93.4
Increase (-)/decrease (+) in inventories		- 45.1	94.5	- 139.6
Increase (-)/decrease (+) in receivables and other assets		32.6	- 161.9	194.5
Increase (+)/decrease (-) in provisions		13.9	71.0	- 57.1
Increase (+)/decrease (-) in liabilities (excl. financial liabilities)		- 120.6	- 100.4	- 20.2
Cash inflow/outflow from operating activities	(45)	466.5	964.6	- 498.1
Payments received from disposals of property, plant and equipment, investment property and intangible assets		610.2	345.2	265.0
Payments received from disposals of consolidated companies (excl. disposals of cash and cash equivalents due to investments)		719.7	351.0	368.7
Payments received from the disposals of other non-current assets		54.8	144.9	- 90.1
Payments made for the investment in property, plant and equipment, investment property and intangible assets		- 650.9	- 856.8	205.9
Payments made for investments in consolidated companies (excl. cash and cash equivalents received due to acquisitions)		- 43.9	- 2,099.7	2,055.8
Payments made for the investment in other non-current assets		- 51.3	- 37.4	- 13.9
Cash inflow/outflow from investing activities	(46)	638.6	- 2,152.8	2,791.4
Payments received from capital increases and allowances by shareholders		8.9	1,281.1	- 1,272.2
Dividend payments				
- TUI AG		- 193.1	- 137.6	- 55.5
- subsidiaries to other shareholders		- 16.5	- 12.5	- 4.0
Payments received from the issue of loans and the raising of financial liabilities		611.1	2,086.8	- 1,475.7
Payments made for redemption of loans and financial liabilities		- 1,223.2	- 1,594.7	371.5
Interest paid		- 239.9	- 316.6	76.7
Cash inflow/outflow from financing activities	(47)	- 1,052.7	1,306.5	- 2,359.2
Net change in cash and cash equivalents		52.4	118.3	- 65.9
Development of cash and cash equivalents	(48)			
Cash and cash equivalents at beginning of period		607.5	481.1	
Change in cash and cash equivalents due to changes in consolidation		25.7	- 2.0	
Change in cash and cash equivalents due to exchange rate fluctuations		3.1	10.1	
Change in cash and cash equivalents with cash effects		52.4	118.3	
Cash and cash equivalents at end of period		688.7	607.5	
of which included in the balance sheet item assets classified as held for sale		0.0	8.3	
Cash and cash equivalents at end of period for continuing operations		688.7	599.2	

Notes Principles and Methods underlying the Consolidated Financial Statements

General

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

TUI operates in two core businesses, tourism and shipping. TUI is Europe's largest integrated tourism group and, in terms of published turnover in 2005, market leader in Germany, the UK and France as well as one of the leading tourism companies in nine other European countries. Following the successful integration of CP Ships into Hapag-Lloyd, TUI operates one of the world's five leading container lines. TUI's shipping division also comprises a passenger shipping company.

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

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

The financial year of TUI AG and its main subsidiaries corresponds to the calendar year. The consolidated financial statements were prepared in euro. Unless stated otherwise, all amounts are indicated in million euros (€ million).

Accounting principles

The legal duty for TUI AG to prepare consolidated financial statements in accordance with the rules of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS), is derived from section 315a sub-section 1 of the German Commercial Code (HGB) in combination with the Regulation EEC No. 1606/2002 of the European Union.

The IFRS are applied in the form in which they have been transposed into national legislation in the framework of the endorsement process by the European Commission. In addition, the commercial-law provisions stipulated by section 315a sub-section 1 HGB are complied with. All requirements of each of the compulsory standards applicable as per the balance sheet date were completely fulfilled. As of the beginning of the 2006 financial year, the following standards, revised or newly published by the IASB, were applicable: IAS 21 The Effects of Changes in Foreign Exchange Rates (amendment for net investment in a foreign operation), IAS 39 Financial Instruments: Recognition and Measurement (amendment for cash flow

hedges of forecast intragroup transactions), IAS 39 Financial Instruments: Recognition and Measurement (amendment for fair value option), IAS 39 Financial Instruments: Recognition and Measurement (amendment for financial guarantee contracts), IFRS 4 Insurance Contracts (amendment for financial guarantee contracts), IFRS 6 Exploration for and Evaluation of Mineral Assets, IFRIC 4 Determining Whether an Arrangement Contains a Lease, IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. The application of these standards did not result in any significant changes in the TUI Group's accounting and measurement methods.

In addition, the revised IAS 19 Employee Benefits has been effective since 1 January 2006. This standard has already been applied voluntarily since 1 January 2005, and the option offered under this standard to offset actuarial gains or losses against equity at the date they occur outside profit and loss was exercised.

The following amendments to published, revised or newly adopted standards, already adopted by the IASB, were not yet applied in the 2006 financial year:

- IAS 1 Presentation of Financial Statements (Amendment re. Capital Disclosures),
- IFRS 7 Financial Instruments: Disclosures,
- IFRS 8 Operating Segments,
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies,
- IFRIC 8 Scope of IFRS 2,
- IFRIC 9 Reassessment of Embedded Derivatives,
- IFRIC 10 Interim Financial Reporting and Impairment,
- IFRIC 11 Group and Treasury Share Transactions according to IFRS 2,
- IFRIC 12 Service Concession Arrangements.

These amendments are only effective as of the 2007 financial year or later. The effects of the application of these standards on TUI AG's consolidated financial statements are not yet known or cannot be reliably assessed at the current point in time.

Due to the short period between the acquisition of the CP Ships Group and the preparation of the consolidated financial statements, the fair values of the acquired assets and contingent liabilities as well as the acquisition costs were only determined on a preliminary basis in the 2005 financial year. Final determination was effected in the last quarter of the completed financial year within the twelve-month period after the acquisition date stipulated by IFRS 3.62. In accordance with IFRS 3, comparative disclosures for periods prior to the completion of the first time accounting of the acquisition transaction must be presented retrospectively as if the purchase price allocation had already been completed at the date of the acquisition. In order to enhance the comparability of figures, the restated figures for 2005 are therefore provided alongside the originally published figures for 2005, both for the profit and loss statement and the balance sheet. The table shown below provides an overview of the retrospective changes in the purchase price allocation.

	Original carrying amounts at date of first time consolidation		Adjustment of the purchase price allocation		Carrying amounts at date of first time consolidation after adjustment	
	\$ million	€ million	\$ million	€ million	\$ million	€ million
Goodwill	–	–	–	–	–	–
Other intangible assets	891.8	744.5	- 41.8	- 34.9	850.0	709.6
Ships	1,340.5	1,118.9	1.4	1.2	1,341.9	1,120.1
Containers	163.6	136.6	–	–	163.6	136.6
Other property, plant and equipment	101.8	85.0	–	–	101.8	85.0
Financial assets available for sale	0.5	0.4	–	–	0.5	0.4
Trade accounts receivable and other receivables	540.3	451.0	–	–	540.3	451.0
Receivables from derivative financial instruments	22.1	18.4	–	–	22.1	18.4
Inventories	42.7	35.6	–	–	42.7	35.6
Cash and cash equivalents	367.5	306.8	–	–	367.5	306.8
Pension provisions	22.8	19.0	–	–	22.8	19.0
Current income tax provisions	2.9	2.5	61.2	51.1	64.1	53.6
Deferred income tax provisions	21.4	17.9	- 6.3	- 5.3	15.1	12.6
Other provisions	151.4	126.3	40.6	33.9	192.0	160.2
of which litigation risks	(58.8)	(49.1)	(–)	(–)	(58.8)	(49.1)
of which contingent liabilities	(6.7)	(5.6)	(–)	(–)	(6.7)	(5.6)
Financial liabilities	605.5	505.5	–	–	605.5	505.5
Trade accounts payable	496.1	414.1	- 28.6	- 23.9	467.5	390.2
Other liabilities	158.9	132.6	–	–	158.9	132.6
Equity	2,011.8	1,679.3	- 107.3	- 89.5	1,904.5	1,589.8

The goodwill arising in the consolidated balance sheet from netting the purchase price for the acquisition of around 89.0% of the shares in October 2005 and the revalued interest in equity rose by USD 95.4 million (€ 79.6 million) due to the changes in the purchase price allocation. The retrospective reduction in the incidental acquisition costs, which were only determined on a preliminary basis in 2005 since some invoices had not yet been received, of USD 0.9 million (€ 0.8 million) resulted in a reduction in the originally capitalised goodwill of the same amount. Final goodwill thus amounted to USD 144.9 million (€ 121.0 million) at the date of first time consolidation. To a large extent, goodwill was part of the expected synergy potential. The negative goodwill which arose in the framework of the acquisition of a minority share in December 2005 rose by USD 11.6 million (€ 9.8 million) to USD 15.6 million (€ 13.1 million). The negative goodwill was directly offset against other revenue reserves. The Group's profit for the year in 2005 rose by USD 1.9 million (€ 1.5 million), with USD 0.2 million (€ 0.2 million) relating to minority shares.

Furthermore, the structure of some assets in the consolidated balance sheet was adjusted in comparison with 2005. In particular, the shares in non-consolidated Group companies, shares in investment companies and securities, shown as investments in 2005, were now carried as financial assets available for sale. Loans, which were included in financial investments in 2005, were summarised under 'Advances and loans' with advances and payments on account. This item was one of the items of trade accounts receivable and other receivables shown in the consolidated balance sheet. 2005 loans of € 27.7 million, classified as non-current financial investments, were classified as current assets due to the adjustment of the structure of the consolidated balance sheet.

Principles and methods of consolidation

Principles

The consolidated financial statements included all major companies in which TUI AG was able, directly or indirectly, to determine the financial and operating policies so as to obtain benefits from the activity of these companies (subsidiaries). As a rule, the control was exercised by means of a majority of voting rights. The RIUSA II Group was included on the basis of equal equity interests and voting rights for TUI AG and its co-shareholder due to de facto control. In the light of overall circumstances, TUI AG was able to determine the financial and operating policies so as to obtain benefits from the activity of this hotel group. In assessing whether the Company was able to control these companies, the existence and effects of potential voting rights which the Company had a right to exercise or convert were taken into account. These companies were included in the consolidated financial statements as of the date at which the TUI Group gained control. When the TUI Group ceased to control these companies, they were removed from consolidation.

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

Shareholdings in companies in which the Group was able to exert significant influence over the financial and operating decisions within these companies (associated companies, shareholding of 20% to less than 50%) were measured at equity. Companies managed jointly with one or several partners (joint ventures, shareholding of 50%) were also measured at equity. The principles applied in determining the dates as of which associated companies and joint ventures were included in or removed from the group of companies measured at equity corresponded to those applying to subsidiaries. Equity measurement in each case was based on the last annual or consolidated financial statements.

Group of consolidated companies

In the 2006 financial year, the consolidated financial statements included a total of 39 domestic and 348 foreign subsidiaries, besides TUI AG.

60 domestic and 111 foreign subsidiaries were not included in the consolidated financial statements. Even when taken together, these companies were not significant for the presentation of a true and fair view of the financial position and performance of the Group.

After 31 December 2005, 26 companies were newly included in consolidation. Five companies had to be included for the first time due to acquisitions. Another 16 companies were included for the first time due to an expansion of their business operations, with five companies included in consolidation for the first time since they were newly established. 21 of the companies included in consolidation for the first time related to the tourism division, three companies to the shipping division and two companies to the holding companies sector.

Since 31 December 2005, a total of 82 companies were removed from consolidation. Of these deconsolidated companies, 47 companies were related to the tourism division, 18 companies to the shipping division, 15 companies to the trading sector

and two companies to other operating sectors. The group of consolidated companies declined by 35 companies due to the divestment of the TQ3 Group (twelve companies), the US steel service group (15 companies), the TUI InfoTec Group (two companies), Wolf GmbH and five further companies. Another 47 companies were deconsolidated due to liquidation, reduction of their business operations and mergers.

As at 31 March 2006, TUI AG completed the divestment of its business travel activities, pooled under the TQ3 Travel Solutions Management Holding GmbH, to the Dutch company BCD Holdings N.V. Until 31 March 2006, the TQ3 Group generated turnover of € 62.3 million and earnings after taxes of € - 3.1 million. In 2005, its turnover had totalled € 254.1 million with earnings of € - 7.6 million. The divestment of a total of twelve subsidiaries was effected at a selling price of € 232.9 million. After deduction of the selling expenses and the realisation of exchange differences with an effect on results of € 16.1 million, the divestment generated total positive earnings before taxes of € 151.1 million for the 'Other tourism' sector. In the framework of the divestment, liabilities to TUI AG of around € 98 million were offset. In the financial year under review, the divestment resulted in a total cash inflow of € 283.0 million.

€ million	31 March 2006	31 Dec 2005
Goodwill	104.7	104.9
Other intangible assets	2.9	2.5
Property, plant and equipment	15.9	23.0
Financial assets available for sale	13.5	13.9
Trade accounts receivable and other receivables	136.0	114.0
Deferred income tax claims	4.5	2.3
Cash and cash equivalents	30.6	7.3
Pension provisions	14.2	13.7
Income tax provisions	2.5	1.8
Other provisions	16.1	14.6
Financial liabilities	5.5	6.2
Trade accounts payable	60.6	39.7
Other liabilities	143.5	118.5
Equity	65.7	73.4
of which minority interests	-	-

Since the sales negotiations became increasingly specific, the business travel activities were already classified as a disposal group in accordance with IFRS 5 as at 20 December 2005. The assets and liabilities of the TQ3 Group therefore already had to be summarised in separate balance sheet items in the consolidated financial statements for 2005.

As at 9 May 2006, TUI AG sold its indirect wholly-owned subsidiary PNA Group Inc. to US financial investor Platinum Equity. Until the divestment date, the US steel service companies generated turnover of € 401.0 million with earnings after taxes of € 19.8 million. In 2005, turnover had totalled € 1,002.9 million, with earnings of € 33.3 million. The 15 subsidiaries were sold at a selling price of € 210.8 million. After deduction of the expenses and the realisation of foreign currency exchange differences of a total of € 7.0 million associated with the divestment, the trading sector posted overall negative earnings before taxes of € 12.7 million relating to the divestment. In the financial year under review, the divestment resulted in a total cash inflow of € 267.3 million.

€ million	9 May 2006	31 Dec 2005
Property, plant and equipment	59.6	63.7
Companies measured at equity	7.0	6.8
Trade accounts receivable and other receivables	364.7	316.0
Deferred income tax claims	10.2	4.2
Cash and cash equivalents	0.8	1.7
Pension provisions	7.4	7.9
Income tax provisions	14.4	2.6
Other provisions	10.0	13.8
Financial liabilities	67.7	50.4
Trade accounts payable	120.0	94.0
Other liabilities	3.7	5.8
Equity	219.1	217.9
of which minority interests	2.6	2.4

With the application of IFRS 5 as at 1 January 2005, the US steel service companies had been classified as discontinuing operations. The assets and liabilities of the PNA Group already had to be summarised in separate balance sheet items in the consolidated financial statements for 2005.

As at the end of the first half of 2006, the specialist travel operations of TUI Nederland were sold in the framework of a management buy-out. TUI Nederland N.V. sold all assets and liabilities of the specialist tour operators at a selling price of € 17.5 million to De Reisspecialisten Groep B.V. The divestment resulted in positive earnings before taxes of € 12.8 million. The turnover and earnings contribution of the sold group of specialist tour operators in relation to the turnover and earnings of the TUI Group was insignificant.

With effect from 5 October 2006, TUI AG sold its 80% interest in Wolf GmbH at a selling price of € 61.8 million to CENTROTEC Sustainable AG. Until it was sold, Wolf GmbH generated turnover of € 154.1 million and earnings after taxes of € 3.6 million. In 2005, its turnover had totalled € 192.0 million with earnings of € 3.0 million. Due to the forthcoming divestment, the business operations of Wolf GmbH were classified as a disposal group in accordance with IFRS 5 as per 12 September 2006. The divestment resulted in earnings before taxes of € 34.7 million. In the financial year under review, the divestment resulted in a total cash inflow of € 75.8 million.

€ million	5 Oct 2006	31 Dec 2005
Intangible assets	4.1	3.7
Property, plant and equipment	40.8	41.6
Financial assets available for sale	2.4	2.4
Inventories	25.8	19.1
Trade accounts receivable and other receivables	38.5	29.5
Deferred income tax claims	1.7	2.0
Cash and cash equivalents	–	0.2
Pension provisions	20.8	20.1
Income tax provisions	9.9	9.3
Other provisions	18.5	17.2
Trade accounts payable	11.1	5.5
Other liabilities	19.1	10.8
Equity	33.9	35.6
of which minority interests	6.8	7.1

On 27 September 2006, TUI AG sold 50.1% of its shares in TUI InfoTec GmbH and a further subsidiary to Sonata Software Limited, Bangalore, at a selling price of € 18.0 million. The shares were transferred upon the occurrence of several suspensive conditions on 24 November 2006. Until the share transfer date, the TUI InfoTec Group generated turnover of € 98.4 million and earnings before income taxes of € 2.4 million. In 2005, its turnover had totalled € 132.2 million with earnings of € - 10.9 million. Due to the divestment, the business operations of the TUI InfoTec Group were classified as a disposal group in accordance with IFRS 5 as at 23 August 2006. The disposal resulted in earnings before taxes of € -10.6 million, taking account of the cost to sell of € 7.3 million and the additional disposal of goodwill from a Group perspective of € 4.1 million. In the financial year under review, the divestment resulted in a total cash inflow of € 13.2 million.

€ million	31 Oct 2006	31 Dec 2005
Goodwill	4.4	4.4
Intangible assets	33.0	40.5
Property, plant and equipment	13.9	9.2
Financial assets available for sale	3.8	3.4
Inventories	0.7	1.0
Trade accounts receivable and other receivables	24.5	23.6
Deferred income tax claims	0.7	-
Cash and cash equivalents	0.6	1.7
Pension provisions	10.8	8.9
Income tax provisions	12.6	10.8
Other provisions	11.5	7.0
Liabilities from finance leases	1.1	1.6
Trade accounts payable	7.6	8.2
Other liabilities	3.3	13.4
Equity	34.7	33.9
of which minority interests	0.2	0.4

As at 24 August 2006, TUI UK Limited, London acquired 100% of the shares in Explorers Travel Club Ltd., Camberley (UK), a provider of individual and organised diving tours, and four other subsidiaries. The purchase price including incidental acquisition costs totalled around GBP 8.9 million (€ 13.1 million), while net assets acquired totalled GBP 2.3 million (€ 3.5 million). Due to the purchase price allocation to individual assets and liabilities, equity rose by GBP 2.1 million (€ 3.0 million). The excess of the total acquisition cost over the revalued equity of GBP 4.5 million (€ 6.7 million) was carried as goodwill. Since the date of first time consolidation, the group generated earnings after taxes of GBP - 0.4 million (€ - 0.5 million) with turnover of GBP 3.2 million (€ 4.7 million). Since the group's financial year did not correspond to the calendar year, financial statements for the entire year 2006 were not available. It was therefore impossible to determine the disclosures of turnover and earnings generated in 2006.

	Carrying amounts at acquisition date		Revaluation of assets and liabilities		Carrying amounts at date of first time consolidation	
	GBP million	€ million	GBP million	€ million	GBP million	€ million
Intangible assets	–	–	2.6	3.7	2.6	3.7
Property, plant and equipment	2.1	3.1	0.9	1.3	3.0	4.4
Inventories	0.1	0.1	–	–	0.1	0.1
Trade accounts receivable	0.5	0.7	–	–	0.5	0.7
Cash and cash equivalents	0.7	1.1	–	–	0.7	1.1
Income tax provisions	0.1	0.2	1.4	2.0	1.5	2.2
Trade accounts payable	0.4	0.5	–	–	0.4	0.5
Other liabilities	0.6	0.8	–	–	0.6	0.8
Equity	2.3	3.5	2.1	3.0	4.4	6.5

The effects of the changes in the group of consolidated companies in the 2006 financial year on the periods under review are outlined below. While the balance sheet items of companies removed from consolidation in the 2006 financial year are only shown as at the closing date for the previous period, the items of the profit and loss statement are also shown for the completed financial year on a prorated basis.

Effects of additions to and removals from consolidation

Balance sheet € million	Additions 31 Dec 2006	Disposals 31 Dec 2005
Non-current assets	77.6	124.0
Current assets	38.2	735.3
Non-current provisions	32.6	55.4
Current provisions	3.4	17.9
Non-current financial liabilities	0.3	3.4
Current financial liabilities	1.1	2.4
Non-current other liabilities	37.0	2.3
Current other liabilities	17.9	420.4

Effects of additions and removals from consolidation

Profit and loss statement € million	Additions 2006	2006	Disposals 2005
Turnover with third parties	21.4	229.5	446.6
Turnover with consolidated Group companies	28.2	99.0	127.0
Operating income	2.7	200.5	46.8
Operating expenses	47.5	345.8	603.4
Financial income	0.8	1.0	2.8
Financial expenses	1.9	3.6	8.7
Result from companies measured at equity	–	0.3	- 0.4
Earnings before taxes on income	3.7	180.9	10.7
Income taxes	1.4	3.1	10.7
Result from continuing operations	2.3	177.8	0.0
Result from discontinuing operations	–	5.9	51.9
Group profit/loss for the year	2.3	183.7	51.9

22 associated companies and 32 joint ventures were measured at equity. The group of companies measured at equity rose by two companies on the previous year. The additions primarily resulted from expansions of the business activities of the companies. In addition one company was included in the group of companies measured at equity for the first time due to a share purchase and two previously consolidated companies have been measured at equity due to the disposal of shares. On the other hand, five companies were removed from the group of companies measured

at equity because of divestments of shareholdings. While two companies were reclassified from associated companies to joint ventures following the acquisition of further shares, one of the previous joint ventures now had to be carried as an associated company due to the sale of shares.

Development of the group of consolidated companies¹⁾ and the companies measured at equity

	Balance 31 Dec 2005	Additions	Disposals	Balance 31 Dec 2006
Consolidated subsidiaries	443	26	82	387
Domestic companies	50	3	14	39
Foreign companies	393	23	68	348
Associated companies	23	4	5	22
Domestic companies	4	1	–	5
Foreign companies	19	3	5	17
Joint ventures	29	6	3	32
Domestic companies	8	1	2	7
Foreign companies	21	5	1	25

¹⁾ excl. TUI AG

The major indirect and direct subsidiaries, associated companies and joint ventures of TUI AG are listed on page 216. A complete list of shareholdings has been deposited with the district courts of Berlin-Charlottenburg and Hanover.

Currency translation

Foreign currency transactions were translated into the functional currency at the exchange rate applicable at the date of the transaction. Gains and losses from the implementation of such transactions and the translation of assets and liabilities carried in foreign currencies at the closing rate are carried in the profit and loss statement. Profits and losses that have to be carried in equity as qualified cash flow hedges are excepted.

The financial statements of companies have to be prepared in the functional currency of the company. The respective functional currency corresponds to the currency of the economic environment in which the company primarily operates. As a matter of principle, the functional currency of all subsidiaries was the national currency of the country in which the respective subsidiary was based, with the exception of a sub-sector in container shipping and two companies in the tourism division. Where subsidiaries prepared their financial statements in currencies other than the euro, the Group's functional currency, the assets, liabilities and balance sheet notes associated with the subsidiaries were translated at the middle rate applicable at the balance sheet date (closing rate). Goodwill allocated to these companies and adjustments of the fair value arising from the acquisition of a foreign company were treated as assets and liabilities of the foreign company and were also translated at the closing rate applicable at the balance sheet date. The items of the profit and loss statement and hence the profit for the year shown in the profit and loss statement were translated at the annual average rate. For consolidated currency differences arising from the translation of net investments in economically independent foreign sub-entities, financial liabilities and other currency instruments classified as hedges of such investments were carried in equity with no effect on results.

Translation differences for non-monetary items whose changes in fair value are offset with an effect on results (e.g. equity instruments measured at fair value with an

effect on results) had to be shown as profits or losses from fair value measurement in the profit and loss statement. In contrast, translation differences for non-monetary items whose changes in fair value affected equity (e.g. for equity instruments classified as available for sale) had to be carried in the revaluation reserve for financial instruments as part of revenue reserves.

In subsidiaries operating in hyperinflationary economies, the translation of the index-linked income and expense items, including the profit for the year, was effected at the respective closing rate. The carrying amounts of the non-monetary balance sheet items of these companies were adjusted to changes in prices on the basis of purchasing power indices and subsequently translated also at the closing rate at the closing date. The purchasing power gains or losses resulting from the indexation were carried as interest income or expenses with an effect on results. However, since the beginning of 2006, none of the economies in which the TUI Group's subsidiaries operate their businesses has been classified as a hyperinflationary economy.

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

Differences resulting from the translation of the financial statements of foreign subsidiaries were carried with no effect on results and separately shown as differences from currency translation in the statement of changes in equity. If a foreign company or operation is sold, the differences from currency translation previously carried in equity with no effect on results were carried in the profit and loss statement as part of the gain or loss on disposal with an effect on results. Where net investment in a foreign company or foreign operation was reduced, the exchange differences were realised with an effect on results in line with the reduced proportion.

Exchange rates of relevant currencies

each €	Closing rate		Average rate	
	31 Dec 2006	31 Dec 2005	2006	2005
British pounds sterling	0.67	0.69	0.68	0.68
US dollars	1.32	1.18	1.26	1.24
Swiss francs	1.61	1.56	1.57	1.55
Swedish kronas	9.04	9.39	9.25	9.28

Consolidation methods

Accounting of net assets of acquired subsidiaries was based on the purchase method of accounting. Accordingly, irrespective of existing minority shares, all identifiable assets, liabilities and contingent liabilities were measured at their fair values at the acquisition date. Subsequently, the acquisition costs plus the costs directly allocable to the acquisition were eliminated against the acquiree's revalued equity. Any excess of acquisition costs over net assets acquired was recognised as goodwill for all companies purchased since 1 October 1995 and recognised as an asset for the acquired subsidiary in accordance with the provisions of IAS 21. Any goodwill arising before that date continued to be eliminated against other revenue reserves. Any negative goodwill was immediately reversed with an effect on results, with the reversal effect shown as 'Other income'.

Due to the application of IRFS 3, goodwill was no longer amortised. Goodwill was regularly tested for impairment at least annually, following the completion of the annual planning process. Additional impairment tests were implemented if there

were any events or indications suggesting a potential impairment of goodwill. Transactions with minorities were treated as transactions with equity holders of the Group. Goodwill, i. e. the difference between the acquisition costs and the interest in the carrying amount of the net assets of the subsidiary, arising in the framework of the acquisition of minority interests was directly eliminated against other revenue reserves. If minority interests were sold, the difference between the gain on the disposal and the interest in the carrying amount was also offset against other revenue reserves.

In the event of step acquisitions, a complete fair value measurement of the assets and liabilities of the acquired company was effected as at the date of each acquisition transaction. The goodwill to be recognised arose from the elimination of the acquisition cost against the acquiree's revalued equity attributable to the acquired share at the respective acquisition date. Any changes in the fair values of assets and liabilities arising in between the acquisition dates were taken to equity in the consolidated balance sheet in line with the amount of holding which did not yet result in a consolidation of the company and carried as a revaluation reserve with no effect on results. In the framework of the removal of a company from consolidation, this revaluation reserve was eliminated against other revenue reserves.

The difference between the income from the disposal of the subsidiary and proportionate Group equity, including differences from currency translation carried with no effect on results, differences from the revaluation reserve, the revaluation reserve for financial assets as well as intercompany profits, was carried as a profit or loss from the disposal of the subsidiary in the consolidated profit and loss statement as at the disposal date. This provision did not apply to actuarial gains or losses carried in Group equity with no effect on results in accordance with IAS 19 in the framework of the recognition of pension provisions. In the disposal transaction, the goodwill allocable to the subsidiaries was taken into account in determining the gains or losses on disposal.

The main associated companies and joint ventures of the Group were measured at equity and, at the acquisition date, carried at their acquisition costs. The Group's share in associated companies and joint ventures included the goodwill arising from the acquisition.

The Group's share in the profits and losses of associated companies and joint ventures was carried in the profit and loss statement (result of companies measured at equity) as of the acquisition date. The share in changes in reserves was carried in Group revenue reserves. Cumulative post-acquisition changes were eliminated against the carrying amount of the shareholding. Where the share in the loss of an associated company or joint venture matched or exceeded the Group's interest in this company, including other unsecured receivables, as a matter of principles no more losses are carried. Further losses were only carried if commitments had been entered into for the associated company or joint venture, or if payments had been made for the company.

Intra-group receivables and liabilities or provisions were eliminated. Where the conditions for a consolidation of third-party liabilities were met, this consolidation method was applied. Intercompany profit from transactions between subsidiaries and companies measured at equity were eliminated in line with the Group's interest in the company. Intercompany losses were also eliminated where the transaction did not indicate an impairment of the assets transferred. Where the accounting and

measurement methods applied by associated companies and joint ventures differed from the Group-wide accounting standards and these deviations were accessible, adjustments were made.

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

Accounting and measurement

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

Realisation of income

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

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

The commission income from package tours sold by the travel agencies was recognised upon payment by the customers, but at the latest upon departure. The services of tour operators mainly consisted in the organisation and coordination of package tours. Turnover from the organisation of tours was therefore fully recognised upon the start of the tour. Turnover from individual travel modules directly booked with airlines, hotel companies and incoming agencies by the customers was realised when the customers used the corresponding service.

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

Interest income and expenses were reported on an accrual basis according to the effective interest method. Dividends were reported when the legal claim had arisen.

Goodwill and other intangible assets

Acquired intangible assets were carried at cost. Self-generated intangible assets, primarily software used by the Group itself, were capitalised at cost where an inflow of future economic benefits for the Group was probable and could be reliably

measured. The cost of production comprised direct costs and directly allocable overheads. Intangible assets with a limited service life were amortised over the expected useful life. Concessions and industrial property rights and similar rights and values were amortised over a period of up to 20 years. Software amortisation usually covered a period of up to three years, in exceptional cases of up to ten years. Intangible assets with an indefinite useful life were not amortised but had to be tested for impairment at least annually. Additional impairment tests had to be conducted when there were any events or indications suggesting a potential impairment. Impairments were charged when the future recoverable amount from the asset was below its carrying amount. The recoverable amount of an asset was the fair value less cost to sell or the present value of future cash flows expected to arise from the asset (value in use), if higher. The Group's intangible assets with an indefinite useful life exclusively consisted of goodwill.

Impairment tests for goodwill were conducted on the basis of cash-generating units. According to the IASB rules, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. In the tourism segment, cash-generating units were established for the individual source markets, i.e. for specific countries, on the one hand and for individual subsidiaries in the tourist destinations on the other. The shipping segment was defined as one single cash-generating unit in its entirety.

In the framework of the impairment tests, the carrying amounts of the tested entities plus the allocated goodwill were compared with their value in use less expected costs to sell. The value in use less expected costs to sell is the amount that could be generated for the cash-generating unit between knowledgeable, willing, independent business partners after deduction of costs to sell. Details concerning the implemented impairment tests are outlined in note 7.

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

Property, plant and equipment

Property, plant and equipment were recognised at amortised cost. The cost of purchase comprised all costs incurred to purchase an asset and bring it to working condition. The cost of production was determined on the basis of direct costs and directly allocable overheads and depreciation. The cost of finance for the acquisition or the period of production was not capitalised.

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

Useful lives

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

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

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

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

Investment grants received were shown as reductions in cost where these grants were directly allocable to individual property, plant or equipment items. Where a direct allocation of grants was not possible, the grants and subsidies received were carried as deferred income under other liabilities and reversed in accordance with the useful life of the investment project.

Finance leases

In accordance with IAS 17, leased property, plant and equipment in which the TUI Group carried all essential risks and rewards incident to ownership of the assets

were capitalised. The capitalisation was based on the fair value of the asset or the present value of the minimum lease payments, if lower. Scheduled depreciation was charged over the economic life or the lease term, if shorter, on the basis of the depreciation method applicable to comparable purchased or manufactured assets. The payment obligations arising from future lease payments were carried as liabilities, with future interest expenses not taken into account. Every lease payment was broken down into an interest and a redemption portion so that the liability from the lease yielded constant interest. The interest portion was carried in the profit and loss statement with an effect on results.

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

Investment property

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

Financial assets

Loans and receivables are non-derivative financial assets with fixed or fixable payments not listed in an active market. Loans and receivables are shown under 'Trade accounts receivable and other receivables' in the balance sheet.

Financial assets measured at fair value with an effect on results were only held by the Group in the form of derivative financial instruments exclusively held for trading.

Financial assets available for sale are non-derivative financial assets either allocated to this category or could not be allocated to any other category of financial assets. They have to be allocated to non-current assets if the management does not intend to sell them within twelve months after the balance sheet date. The financial assets allocated to this category were shares and securities held.

Financial assets were recognised at the trade date, on which the Group committed to buy or sell the asset. Loans and receivables as well as financial assets available for sale were at the beginning carried at fair value plus transaction costs. The assets are derecognised as at the date on which the rights for payments from the asset cease or are transferred and therefore as at the date essentially all risks and rewards are transferred associated with ownership are transferred. Financial assets available for sale were measured at their fair value after their first time recognition. Changes in the fair value were carried in equity with no effect on results until the disposal of the asset. A permanent reduction in fair value gave rise to impairments with an effect on results. In the event of subsequent reversal of the impairment, the impairment carried with an effect on results was not reversed for equity instruments but eliminated against equity with no effect on results. Where a listed market price in an active market was not available for shares held and other methods to determine the objective market value were not applicable, the shares were measured at amortised cost. Loans and receivables were recognised at amortised cost based on the effective interest method.

Derivative financial instruments and hedging

In the framework of initial measurement, derivative financial instruments were measured at the fair value attributable to them on the day of the conclusion of the agreement. The follow-up measurement was also effected at the fair value applicable at the respective balance sheet date. The method applied in recording profits and losses depended on whether the derivative financial instrument was classified as a hedge, and on the type of hedged item. As a matter of principle, the Group classifies derivative financial instruments either as fair value hedges to hedge exposure to changes in the fair value of assets or liabilities or as cash flow hedges to hedge exposure to risks of varying cash flows from highly probable future transactions.

Upon conclusion of the transaction, the Group documents the hedging relationship between the hedge and the underlying item, the risk management goal and the strategy pursued in entering into the hedges. In addition, an assessment is made both at the beginning of the hedge relationship and on a continual basis as to whether the derivatives used for the hedge compensate for the changes in the fair values or cash flows of the underlying transactions in a highly effective manner. Derivative financial instruments held for trading were carried as current assets or liabilities.

The changes in the fair value of derivatives designated to hedge exposure to changes in the fair value and qualify the hedge as a fair value hedge were carried in the profit and loss statement together with the changes in the fair value of the hedged assets or liabilities allocable to the hedged risk. If the conditions for hedge accounting were no longer met and the previously designated underlying item was measured by means of the effective interest method, the necessary adjustment of the carrying amount of the underlying transaction had to be effected over its remaining term.

The effective part of changes in the fair value of derivatives drawn to hedge the cash flow and qualify as cash flow hedges was recognised in equity. The ineffective part of such changes in the fair value, in contrast, was taken directly to the profit and loss statement with an effect on results. Amounts taken to equity were reclassified into the profit and loss statement and carried as income or expenses in the period in which the underlying transaction had an effect on results. Where a hedged future transaction resulted in the recognition of a non-financial asset or a non-financial liability, the profits or losses previously carried in equity were included in the first time measurement of the cost of the asset or liability.

If a hedge expired, was sold or no longer met the criteria for hedge accounting, the profit or loss previously in equity by then remained in equity and was only carried in the profit and loss statement with an effect on results if the originally hedged future transaction occurred. If the future transaction was no longer expected to occur, the cumulative profits or losses recognised in equity immediately had to be reclassified with an effect on results.

Changes in the fair values of derivative financial instruments not achieving the criteria for hedge accounting were directly carried in the profit and loss statement with an effect on results.

Trade accounts receivable

Trade accounts receivable were at the beginning initially carried at their fair value and subsequently measured at amortised cost on the basis of the effective interest method and the deduction of impairments. An impairment of trade accounts receivable was carried if objective indications suggested that the amounts receivable

and due were not fully matched. The impaired amount was carried under 'Other expenses' with an effect on results.

Inventories

Inventories were measured at the lower of cost or net realisable value. Net realisable value was the estimated selling price less the estimated cost incurred until the sale and the estimated variable costs required to sell. All inventories were written down individually where the net realisable value of inventories was lower than their carrying amounts. Where the original causes of inventory write-downs no longer applied, the write-downs were reversed. The measurement method applied to similar inventory items was the weighted average cost formula.

Cash and cash equivalents

Cash and cash equivalents comprised cash, sight deposits, other current highly liquid financial assets with an original term of a maximum three months and current accounts. Used credits in current accounts were shown as liabilities to banks under current financial liabilities.

Hybrid capital

In accordance with IAS 32, the bond terms of the hybrid capital issued as at the end of the 2005 financial year resulted in recognition as an equity component for the Group. Accordingly, the tax-deductible interest payments were not shown under interest expenses but were treated in analogy to dividend obligations to the shareholders. The costs of equity raising were directly deducted from the hybrid capital, taking account of deferred income taxes.

Provisions

Provisions were formed where the Group had a current legal or constructive obligation resulting from a past event and where in addition it was probable that the payment of the obligation would impact assets and the level of the provision could be reliably determined. Provisions for restructurings comprised payments for the premature termination of rental agreements and severance payments to employees. No provisions were carried for future operating losses.

Where a large number of similar obligations existed – such as in the event of legal guarantees and warranties – the probability of a burden on assets was determined on the basis of this group of obligations. A provision was also carried under liabilities if the probability of a burden on assets was low in relation to a single obligation contained in this group.

Provisions were measured at the net present value of the expected expenses with an interest rate before taxes taking account of current market expectations concerning the interest effect and the specific risks related to the obligation. The increase in the provisions due to the passage of time were carried as interest expenses with an effect on results.

The pension provision recognised for defined benefit plans corresponded to the net present value of the defined benefit obligations (DBOs) at the balance sheet date less the fair value of the plan assets. Actuarial gains and losses arising from the regular adjustment of actuarial parameters were eliminated against equity when they occurred with no effect on results. The DBOs are calculated on an annual basis by independent actuarial experts on the basis of the projected unit credit method. The net present value of the DBO is calculated by discounting the expected future outflows of cash with the interest rate of high-quality corporate bonds.

Past service cost was immediately recognised with an effect on results if the changes in the pension plan did not depend on the employee remaining in the company for a defined period of time (period until non-forfeitability). In this case, the past service cost was recognised with an effect on results on a straight line basis over the period until the commencement of non-forfeitability.

For defined contribution plans, the Group pays contributions to public, contractual 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 beyond the payment of the contributions. The contributions were carried under personnel costs when they fell due.

Share-based payments

All share-based payment schemes existing in the Group were payment schemes paid in cash. At the date of the performance by the beneficiary, the resulting liability for the Group was carried at its fair value. Until the liability was paid, the fair value of the liability was remeasured at every reporting date and all changes in the fair value were carried with an effect on results.

Liabilities

As a matter of principle, liabilities were carried at the date on which they arose at the fair value less the costs of borrowing and transaction costs. Over the course of time, liabilities were measured at amortised cost based on the effective interest method.

When issuing bonds comprising both a pure debt component but also a second component in the form of conversion options or warrants, the funds obtained for the respective components were recognised in accordance with their character. At the issuing date, the debt component was carried as a bond at a value that would have been generated for the issue of this debt instrument without corresponding conversion options or warrants on the basis of existing market terms. Where the conversion options or warrants had to be classified as equity instruments, the difference compared with the issuing proceeds generated was transferred to the capital reserve with deferred taxes taken into account. With effect from 3 April 2006, TUI AG irrevocably waived its unilateral option of paying cash in the event of an exercise of the conversion options from the convertible bond issued in October 2003, and therefore the conversion options have been treated as equity instruments since the waiver date.

Currency differences resulting from the translation of trade accounts receivable were reported as a correction of the cost of purchased services and materials. Currency differences from the translation of liabilities not resulting from normal performance processes were carried under other income and expenses.

Deferred income taxes

Deferred taxes were carried for all temporary differences between the tax base of the assets/liabilities and their carrying amounts in the Group's statements (liability method). However, if a transaction is shown as something other than a business acquisition a deferred tax arises from the first time recognition of an asset or a liability which does not have an effect on profit or loss in the balance sheet or the tax balance sheet at the transaction date, tax deferral was not effected. Deferred taxes were measured on the basis of the tax rates (and tax provisions) which were applicable at the balance sheet date or had been adopted as law expected to be applicable at the realisation date of the deferred tax claim or the payment of the deferred tax liability.

Deferred tax claims were carried to the extent to which it was probable that taxable profit would be available against which the temporary difference could be used.

Deferred tax liabilities arising from temporary differences in connection with participations in associated companies, joint ventures and subsidiaries were carried unless the date of the reversal of the temporary differences could be determined by the Group and it was probable that the temporary differences would therefore not reverse in the foreseeable future.

Income tax provisions were offset against the corresponding tax refund claims where they existed in the same fiscal territory and had the same nature and maturity.

Essential assumptions and estimates

All estimates and judgments were constantly revalued and were based on past experience and other factors, including expectations concerning future events.

Goodwill was tested for impairment as at the balance sheet date. Details concerning the implementation of goodwill impairments tests are provided in note 7.

The determination of the present value of pension obligations largely depends on the selection of the discount rate, determined at the end of each year. The discount rate used was the interest rate of high-quality corporate bonds that were denominated in the currency in which the benefits will be paid, and that had terms to maturity approximating the terms of the related pension liability. Detailed information is provided in the explanations on recognised pension provisions in note 34.

The Group was liable to pay income taxes in numerous countries. Significant assumptions were required in determining the worldwide provision for income taxes. There were transactions and calculations for which the ultimate tax determination was uncertain during the ordinary course of business. The level of provisions for anticipated tax audits was based on estimates of whether and to what extent additional income taxes will be due. In the period in which the final tax determination was made, the estimates were corrected, if required.

Other essential assumptions and estimates related to the determination of useful lives and recoverable residual values of property, plant and equipment. The determined useful lives and residual values were reviewed at least annually. Details on useful lives and residual values of property, plant and equipment are provided in the section on 'Property, plant and equipment' in the chapter on 'Accounting and measurement methods'.

In accounting for business combinations, the identifiable assets acquired and liabilities and contingent liabilities assumed were measured initially at their fair values. In this process, cash flow-based methods were regularly used, which may produce different results based on the underlying assumptions. In particular, the assessment of the useful lives of intangible assets and the determination of fair values of contingent liabilities entailed an element of uncertainty since assumptions needed to be made.

Segment reporting

Notes on the segments

In primary segment reporting, the individual companies of the TUI Group were attributed to the business segments, with tourism and shipping representing the Group's core businesses. Following the divestment of Wolf GmbH, the segment 'Other operating sectors' exclusively consisted of the Group's real estate companies. TUI AG assumes both cross-divisional tasks such as finance, tax and legal, but also operating tasks for the tourism division. In this connection, TUI AG in particular acquired ownership in aircraft and container ships, passed on to the Group's airlines and shipping companies in the framework of operating leases. For the purposes of segment reporting, economic ownership was allocated to the operating companies so that the aircraft and ships represented assets of the tourism and shipping segments. Corresponding expenses and income were also allocated to the segments. The remaining operations of TUI AG and other holding companies not unambiguously allocable to other segments were pooled as non-allocable business operations (holdings).

Group segmentation was based on internal corporate control. The individual companies were allocated to the divisions and sectors based on economic criteria alone, irrespective of their participation structure under company law.

The tourism division covered all tourism companies of the Group with the exception of Hapag-Lloyd Kreuzfahrten, covered by the shipping division as its entrepreneurial management was effected by Hapag-Lloyd AG. The further classification of the tourism segment into the five sectors Central Europe, Northern Europe, Western Europe, Destinations and Other tourism activities mainly followed geographical aspects and the respective functions within the value chain.

The Central Europe sector comprised the distribution and tour operator activities in Germany, Switzerland, Austria and Poland as well as airlines Hapag-Lloyd Fluggesellschaft mbH and Hapag-Lloyd Express GmbH. The Northern Europe sector covered the travel agencies and tour operators in the UK and Ireland, the Nordic countries Sweden, Denmark, Norway and Finland as well as the airlines Thomsonfly Limited, TUIfly Nordic AB and Budget Air Ltd. The Western Europe sector comprised the distribution and tour operator activities in France, the Netherlands and Belgium as well as the airlines Corsair S.A., TUI Airlines Nederland B.V. and TUI Airlines Belgium N.V. The destinations sector included the Group's incoming agencies and hotel companies. The 'Other tourism' sector primarily comprised the business travel activities, only included on a pro rata temporis basis due to the divestment, and companies providing central services for the division until the date of disposal of these companies.

The shipping division covered both container shipping and cruise activities. In the container shipping sector, Hapag-Lloyd and CP Ships did not only offer pure container shipping operations but in particular also door-to-door container transport services. Using subcontractors, they thus offered services at all stages of the transport chain.

The Group's discontinuing operations remaining at the end of the 2005 financial year, the US steel service companies, were sold in May of 2006. Rail and tank container logistics were already sold in the 2005 financial year.

In secondary segment reporting, the Group's business activities were broken down according to geographical criteria.

Notes on the segment data

As a rule, inter-segment turnover was generated in line with the arm's length principle, applied in transactions with third parties.

The operating segment assets and liabilities comprised the assets or liabilities, excluding financial assets, financial liabilities and pension provisions as well as income taxes. Goodwill was also shown as segment assets.

Investments were additions of property, plant and equipment as well as intangible assets. Depreciation was related to segment assets and also included impairments on goodwill.

Depreciation was not taken into account in the determination of non-cash expenses.

Earnings from the divestment of subsidiaries were allocated to the individual segment earnings. The realisation of differences from currency translation with an effect on results, effected in connection with capital reductions, was assessed as related to the holding activities and therefore allocated to the holding companies in the segment report.

Financial assets as well as cash and cash equivalents were used to generate the financial result. Financial liabilities including pension provisions were carried as interest-bearing liabilities and were used to finance the operating and investing activities.

The reconciliation of segment assets and liabilities to the Group's assets or liabilities resulted from the consideration of the income tax claims or income tax provisions and liabilities not taken into account in accordance with IAS 14.

Segment reporting disclosed earnings indicators such as EBT, EBIT, EBITA, EBITDA and EBITDAR since these ratios were also used as the control basis for value-driven corporate management. In determining the ratios of the discontinuing operations, the result from discontinuing operations was reallocated to the original positions of income and expenses.

Key Figures by Divisions and Sectors

€ million	2006	Tourism 2005	2006	Shipping 2005 restated
Statements of results				
Third-party turnover	14,083.9	14,096.5	6,254.0	3,834.2
Inter-segment turnover	29.6	28.9	5.1	2.8
Segment turnover	14,113.5	14,125.4	6,259.1	3,837.0
Group profit/loss for the year				
Income taxes				
Earnings before taxes (EBT)	- 335.1	360.0	- 178.6	279.9
Net interest result and result from the measurement of interest hedges	- 16.0	- 5.2	- 72.4	- 39.4
Earnings before interest and taxes (EBIT)	- 319.1	365.2	- 106.2	319.3
of which at equity result	(43.0)	(35.0)	(7.5)	(4.1)
Impairment of goodwill	709.5	0.0	0.0	0.0
Impairment of companies measured at equity	3.3	0.0	0.0	0.0
Earnings before interest, taxes and amortisation of goodwill (EBITA)	393.7	365.2	- 106.2	319.3
Amortisation of other intangible assets and depreciation of property, plant and equipment	384.4	368.4	317.7	134.6
of which impairments	(31.3)	(16.3)	(15.6)	(0.1)
Other depreciation/amortisation and write-backs	- 3.0	- 0.6	0.0	0.3
of which write-backs	(0.4)	(5.6)	(0.0)	(0.5)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	781.1	734.2	211.5	453.6
Rental expenses	572.1	556.6	593.5	272.1
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	1,353.2	1,290.8	805.0	725.7
Assets and liabilities				
Segment assets	7,194.0	8,249.0	3,669.9	4,457.1
of which goodwill	(3,027.5)	(3,712.3)	(107.3)	(123.9)
Carrying amounts of companies measured at equity	388.8	360.7	18.9	12.0
Financial assets	1,493.4	1,063.4	195.5	884.2
Non-allocatable taxes				
Total assets				
Segment liabilities	3,299.3	3,147.2	1,100.5	1,160.9
Interest-bearing liabilities	1,888.8	1,969.4	1,773.4	1,698.0
Non-allocatable taxes				
Total liabilities and provisions				
Additional disclosures				
Non-cash expenses	2.8	7.4	0.3	2.5
Return on sales (% on EBITA)	2.8	2.6	- 1.7	8.3
Investments	542.7	566.5	190.3	508.6
Investments in goodwill	8.9	15.1	0.2	122.0
Investments in other intangible assets and property, plant and equipment	533.8	551.4	190.1	386.6
Financing ratio (%)	201.6	65.0	166.9	26.5
Personnel at year-end	44,409	50,498	8,571	9,077

* Non-allocatable to segments

Other operating units		2006	Holdings* 2005	Consolidation		Continuing operations	
2006	2005			2006	2005	2006	2005 restated
175.4	268.5	1.3	1.1	0.0	0.0	20,514.6	18,200.3
10.1	9.4	17.8	16.6	- 62.6	- 56.7	0.0	1.0
185.5	277.9	19.1	17.7	- 62.6	- 56.7	20,514.6	18,201.3
						- 863.7	300.1
						127.6	86.8
93.3	60.4	- 203.7	- 60.0	- 112.0	- 253.4	- 736.1	386.9
- 1.7	- 0.2	- 137.7	- 158.6	1.7	- 0.2	- 226.1	- 203.6
95.0	60.6	- 66.0	98.6	- 113.7	- 253.2	- 510.0	590.5
(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(50.5)	(39.1)
0.0	0.0	0.0	0.0	0.0	0.0	709.5	0.0
0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0
95.0	60.6	- 66.0	98.6	- 113.7	- 253.2	202.8	590.5
9.4	14.8	10.7	5.8	- 0.5	- 0.4	721.7	523.2
(0.5)	(1.9)	(6.9)	(0.0)	(0.0)	(0.0)	(54.3)	(18.3)
0.0	0.1	- 11.5	- 4.2	0.0	- 1.9	- 14.5	- 6.3
(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.4)	(6.1)
104.4	75.3	- 43.8	108.6	- 114.2	- 251.7	939.0	1,120.0
2.6	4.2	2.0	1.5	- 14.1	- 22.9	1,156.1	811.5
107.0	79.5	- 41.8	110.1	- 128.3	- 274.6	2,095.1	1,931.5
147.1	245.2	128.9	379.0	- 56.4	- 164.4	11,083.5	13,165.9
(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(3,134.8)	(3,836.2)
0.0	0.0	0.0	0.0	0.0	0.0	407.7	372.7
262.0	303.0	9,264.6	9,892.6	- 9,991.7	- 11,014.8	1,223.8	1,128.4
53.7	121.9	281.2	552.0	- 44.6	- 180.6	4,690.1	4,801.4
100.3	130.2	4,486.0	5,014.5	- 3,263.8	- 3,139.9	4,984.7	5,672.2
0.0	0.0	66.6	2.6	0.0	0.0	69.7	12.5
51.2	21.8					1.0	3.2
13.5	22.9	1.4	1.3	0.0	0.0	747.9	1,099.3
0.0	0.0	0.0	0.0	0.0	0.0	9.1	137.1
13.5	22.9	1.4	1.3	0.0	0.0	738.8	962.2
69.6	64.6	764.3	446.2			191.4	47.6
82	1,337	868	846			53,930	61,758

Key Figures by Divisions and Sectors

€ million	Continuing operations		Special logistics	
	2006	2005 restated	2006	2005
Statements of results				
Third-party turnover	20,514.6	18,200.3	0.0	415.4
Inter-segment turnover	0.0	1.0	0.0	0.0
Segment turnover	20,514.6	18,201.3	0.0	415.4
Group profit/loss for the year				
Income taxes	127.6	86.8		
Earnings before taxes (EBT)	- 736.1	386.9	5.3	150.5
Net interest result and result from the measurement of interest hedges	- 226.1	- 203.6	0.0	- 8.1
Earnings before interest and taxes (EBIT)	- 510.0	590.5	5.3	158.6
of which at equity result	(50.5)	(39.1)	(0.0)	(0.0)
Impairment of goodwill	709.5	0.0	0.0	0.0
Impairment of companies measured at equity	3.3	0.0	0.0	0.0
Earnings before interest, taxes and amortisation of goodwill (EBITA)	202.8	590.5	5.3	158.6
Amortisation of other intangible assets and depreciation of property, plant and equipment	721.7	523.2	0.0	0.0
of which impairments	(54.3)	(18.3)	(0.0)	(0.0)
Other depreciation/amortisation and write-backs	- 14.5	- 6.3	0.0	0.0
of which write-backs	(0.4)	(6.1)	(0.0)	(0.0)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	939.0	1,120.0	5.3	158.6
Rental expenses	1,156.1	811.5	0.0	29.3
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	2,095.1	1,931.5	5.3	187.9
Assets and liabilities				
Segment assets	11,083.5	13,165.9	0.0	0.0
of which goodwill	(3,134.8)	(3,836.2)	(0.0)	(0.0)
Carrying amounts of companies measured at equity	407.7	372.7	0.0	0.0
Financial assets	1,223.8	1,128.4	0.0	0.0
Non-allocatable taxes				
Total assets				
Segment liabilities	4,690.1	4,801.4	0.0	0.0
Interest-bearing liabilities	4,984.7	5,672.2	0.0	0.0
Non-allocatable taxes				
Total liabilities and provisions				
Additional disclosures				
Non-cash expenses	69.7	12.5	0.0	0.0
Return on sales (% on EBITA)	1.0	3.2		38.2
Investments	747.9	1,099.3	0.0	33.0
Investments in goodwill	9.1	137.1	0.0	0.1
Investments in other intangible assets and property, plant and equipment	738.8	962.2	0.0	32.9
Financing ratio (%)	191.4	47.6		0.0
Personnel at year-end	53,930	61,758	0.0	0.0

* The discontinuing operations comprise subsequent earnings from the disposal of the Energy division of € 5.4 million as well as one-off earnings of € 1.8 million of the Destinations sector. For 2005 the earnings from the disposal of the Energy division totalled € 34.0 million.

	2006	Trading 2005	Discontinuing operations*		Consolidation		2006	Group 2005 restated
			2006	2005	2006	2005		
	401.0	1,002.9	401.0	1,418.3	0.0	0.0	20,915.6	19,618.6
	0.0	0.0	0.0	0.0	0.0	- 1.0	0.0	0.0
	401.0	1,002.9	401.0	1,418.3	0.0	- 1.0	20,915.6	19,618.6
			17.1	196.2			- 846.6	496.3
			11.5	51.1			139.1	137.9
	16.1	62.8	28.6*	247.3*	0.0	0.0	- 707.5	634.2
	- 1.0	- 4.5	- 1.0	- 12.6	0.0	0.0	- 227.1	- 216.2
	17.1	67.3	29.6*	259.9*	0.0	0.0	- 480.4	850.4
	(0.0)	(1.2)	(0.0)	(1.2)	(0.0)	(0.0)	(50.5)	(40.3)
	0.0	0.0	0.0	0.0	0.0	0.0	709.5	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0
	17.1	67.3	29.6*	259.9*	0.0	0.0	232.4	850.4
	0.0	0.0	0.0	0.0	0.0	0.0	721.7	523.2
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(54.3)	(18.3)
	0.0	0.0	0.0	0.0	0.0	0.0	- 14.5	- 6.3
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.4)	(6.1)
	17.1	67.3	29.6*	259.9*	0.0	0.0	968.6	1,379.9
	1.1	2.2	1.1	31.5	0.0	0.0	1,157.2	843.0
	18.2	69.5	30.7*	291.4*	0.0	0.0	2,125.8	2,222.9
	0.0	377.9	0.0	377.9	0.0	0.0	11,083.5	13,543.8
	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(3,134.8)	(3,836.2)
	0.0	0.0	0.0	0.0	0.0	0.0	407.7	372.7
	0.0	8.7	0.0	8.7	0.0	- 3.1	1,223.8	1,134.0
							299.0	323.9
							13,014.0	15,374.4
	0.0	113.6	0.0	113.6	0.0	- 2.9	4,690.1	4,912.1
	0.0	58.3	0.0	58.3	0.0	- 0.2	4,984.7	5,730.3
							328.9	365.2
							10,003.7	11,007.6
	0.0	0.0	0.0	0.0	0.0	0.0	69.7	12.5
	4.3	6.7					1.1	4.3
	2.0	5.4	2.0	38.4	0.0	0.0	749.9	1,137.7
	0.0	0.0	0.0	0.1	0.0	0.0	9.1	137.2
	2.0	5.4	2.0	38.3	0.0	0.0	740.8	1,000.5
	0.0	0.0	0.0	0.0			190.9	46.0
	0.0	1,189	0.0	1,189			53,930	62,947

Key Figures Tourism Division

€ million	Central Europe		Northern Europe		Western Europe	
	2006	2005	2006	2005	2006	2005
Statements of results						
Third-party turnover	5,803.1	5,749.6	4,794.4	4,809.2	2,815.2	2,753.7
Inter-segment turnover	18.9	19.2	2.9	4.1	8.0	6.7
Segment turnover	5,822.0	5,768.8	4,797.3	4,813.3	2,823.2	2,760.4
Group profit						
Income taxes						
Earnings before taxes (EBT)	101.2	82.5	- 388.5	109.2	- 279.0	- 9.6
Net interest result and result from the measurement of interest hedges	11.7	16.6	10.2	6.3	- 15.0	- 7.0
Earnings before interest and taxes (EBIT)	89.5	65.9	- 398.7	102.9	- 264.0	- 2.6
of which at equity result	(0.2)	(2.9)	(0.0)	(0.0)	(- 0.7)	(0.1)
Impairment of goodwill	0.0	0.0	479.7	0.0	210.3	0.0
Impairment of companies measured at equity	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before interest, taxes and amortisation of goodwill (EBITA)	89.5	65.9	81.0	102.9	- 53.7	- 2.6
Amortisation of other intangible assets and depreciation of property, plant and equipment of which impairments	60.0	70.0	129.0	113.4	68.9	55.1
Other depreciation/amortisation and write-backs of which write-backs	(0.9)	(4.4)	(0.0)	(0.0)	(0.0)	(2.5)
	- 1.1	- 2.8	0.0	0.0	0.0	- 0.3
	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(1.8)
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	150.6	138.7	210.0	216.3	15.2	52.8
Rental expenses	181.5	155.8	247.2	247.8	54.6	44.6
Earnings before interest, taxes, depreciation, amortisation and rental expenses (EBITDAR)	332.1	294.5	457.2	464.1	69.8	97.4
Assets and liabilities						
Segment assets	1,428.6	1,560.6	2,865.7	3,253.0	975.5	1,177.5
of which goodwill	(637.8)	(650.2)	(1,525.2)	(1,960.2)	(270.6)	(486.6)
Carrying amounts of companies measured at equity	13.6	14.8	0.0	0.0	0.7	0.4
Financial assets	861.6	666.7	510.0	764.8	242.4	256.3
Non-allocatable taxes						
Total assets						
Segment liabilities	1,068.7	997.6	1,463.1	1,361.6	669.2	604.5
Interest-bearing liabilities	307.5	282.9	702.8	1,040.3	373.6	473.2
Non-allocatable taxes						
Total liabilities and provisions						
Additional disclosures						
Non-cash expenses	0.9	0.4	0.0	0.0	0.8	1.5
Return on sales (% on EBITA)	1.5	1.1	1.7	2.1	- 1.9	- 0.1
Investments	156.3	109.9	89.9	91.2	79.5	232.9
Investments in goodwill	0.8	0.3	6.7	0.0	0.0	14.8
Investments in other intangible assets and property, plant and equipment	155.5	109.6	83.2	91.2	79.5	218.1
Financing ratio (%)	38.4	63.7	677.1	124.3	351.2	23.7
Personnel at year-end	9,411	9,691	14,711	16,254	6,504	6,904

Destinations		Other tourism		Consolidation		Tourism division	
2006	2005	2006	2005	2006	2005	2006	2005
599.0	532.5	72.2	251.5	0.0	0.0	14,083.9	14,096.5
611.5	593.3	99.1	127.1	- 710.8	- 721.5	29.6	28.9
1,210.5	1,125.8	171.3	378.6	- 710.8	- 721.5	14,113.5	14,125.4
92.0	169.3	140.7	4.5	- 1.5	4.1	- 335.1	360.0
- 21.3	- 15.9	- 1.6	- 5.3	0.0	0.1	- 16.0	- 5.2
113.3	185.2	142.3	9.8	- 1.5	4.0	- 319.1	365.2
(43.2)	(32.4)	(0.3)	(- 0.4)	(0.0)	(0.0)	(43.0)	(35.0)
19.5	0.0	0.0	0.0	0.0	0.0	709.5	0.0
3.3	0.0	0.0	0.0	0.0	0.0	3.3	0.0
136.1	185.2	142.3	9.8	- 1.5	4.0	393.7	365.2
111.0	85.7	15.9	45.1	- 0.4	- 0.9	384.4	368.4
(30.4)	(4.5)	(0.0)	(4.9)	(0.0)	(0.0)	(31.3)	(16.3)
- 3.3	2.5	0.0	0.0	1.4	0.0	- 3.0	- 0.6
(0.4)	(3.7)	(0.0)	(0.0)	(0.0)	(0.0)	(0.4)	(5.6)
250.4	268.4	158.2	54.9	- 3.3	3.1	781.1	734.2
77.8	85.4	14.7	25.4	- 3.7	- 2.4	572.1	556.6
328.2	353.8	172.9	80.3	- 7.0	0.7	1,353.2	1,290.8
1,989.4	2,019.4	0.0	320.8	- 65.2	- 82.3	7,194.0	8,249.0
(593.9)	(615.3)	(0.0)	(0.0)	(0.0)	(0.0)	(3,027.5)	(3,712.3)
357.7	345.1	16.8	0.4	0.0	0.0	388.8	360.7
121.4	83.2	0.0	26.3	- 242.0	- 733.9	1,493.4	1,063.4
166.8	158.3	0.0	113.7	- 68.5	- 88.5	3,299.3	3,147.2
724.3	788.5	18.4	115.8	- 237.8	- 731.3	1,888.8	1,969.4
1.1	5.1	0.0	0.4	0.0	0.0	2.8	7.4
11.2	16.5	83.1	2.6			2.8	2.6
202.4	114.3	14.6	18.2	0.0	0.0	542.7	566.5
1.4	0.0	0.0	0.0	0.0	0.0	8.9	15.1
201.0	114.3	14.6	18.2	0.0	0.0	533.8	551.4
64.5	75.0	108.9	247.8			201.6	65.0
13,783	12,866	0.0	4,783			44,409	50,498

Key Figures by Regions

€ million	Germany		EU (excl. Germany)		Rest of Europe	
	2006	2005	2006	2005	2006	2005
Consolidated turnover by customers	5,428.4	5,734.9	10,577.2	9,975.2	710.1	528.6
of which discontinuing operations	(0.0)	(201.5)	(0.0)	(154.8)	(0.0)	(35.6)
Consolidated turnover by domicile of companies	9,782.5	8,994.2	9,175.8	8,684.7	460.3	482.1
of which discontinuing operations	(0.0)	(343.2)	(0.0)	(67.5)	(0.0)	(4.7)
Segment assets	4,263.0	3,942.1	5,238.7	6,411.0	120.8	133.3
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-allocatable taxes						
Segment liabilities	2,097.0	1,975.4	2,358.9	2,400.5	52.8	52.2
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Non-allocatable taxes						
Additional disclosures						
Depreciation/amortisation	261.9	225.4	1,022.1	234.6	8.7	5.2
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Investments	323.8	492.6	275.9	445.5	12.5	3.5
of which discontinuing operations	(0.0)	(18.0)	(0.0)	(15.0)	(0.0)	(0.0)
Investments in goodwill	0.7	0.4	8.1	14.8	0.1	0.0
of which discontinuing operations	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Investments in other intangible assets and property, plant and equipment	323.1	492.2	267.8	430.7	12.4	3.5
of which discontinuing operations	(0.0)	(17.9)	(0.0)	(15.0)	(0.0)	(0.0)
Personnel at year-end	11,112	15,750	32,094	34,693	3,067	2,859
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)

€ million	North and South America		Other Regions		Consolidation		2006	Group 2005 restated
	2006	2005 restated	2006	2005	2006	2005		
Consolidated turnover by customers	2,722.1	2,357.0	1,477.8	1,022.9			20,915.6	19,618.6
of which discontinuing operations	(401.0)	(1,018.6)	(0.0)	(7.8)			(401.0)	(1,418.3)
Consolidated turnover by domicile of companies	1,431.4	1,412.2	65.6	45.4			20,915.6	19,618.6
of which discontinuing operations	(401.0)	(1,002.9)	(0.0)	(0.0)			(401.0)	(1,418.3)
Segment assets	1,425.6	2,772.7	454.7	470.1	- 419.3	- 185.4	11,083.5	13,543.8
of which discontinuing operations	(0.0)	(377.9)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(377.9)
Non-allocatable taxes							(299.0)	(323.9)
Segment liabilities	459.0	560.8	157.1	122.5	- 434.7	- 199.3	4,690.1	4,912.1
of which discontinuing operations	(0.0)	(113.6)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(113.6)
Non-allocatable taxes							(328.9)	(365.2)
Additional disclosures								
Depreciation/amortisation	81.8	37.1	57.1	21.2	- 0.5	- 0.3	1,431.1	523.2
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)			(0.0)	(0.0)
Investments	92.1	185.6	45.6	10.5			749.9	1,137.7
of which discontinuing operations	(2.0)	(5.4)	(0.0)	(0.0)			(2.0)	(38.4)
Investments in goodwill	0.2	122.0	0.0	0.0			9.1	137.2
of which discontinuing operations	(0.0)	(0.0)	(0.0)	(0.0)			(0.0)	(0.1)
Investments in other intangible assets and property, plant and equipment	91.9	63.6	45.6	10.5			740.8	1,000.5
of which discontinuing operations	(2.0)	(5.4)	(0.0)	(0.0)			(2.0)	(38.3)
Personnel at year-end	4,149	5,737	3,508	3,908			53,930	62,947
of which discontinuing operations	(0.0)	(1,189)	(0.0)	(0.0)			(0.0)	(1,189)

Notes on the Consolidated Profit and Loss Statement

(1) Turnover

Group turnover by business activity

€ million	2006	2005
Tourism services	14,147.3	14,153.0
Transport services	6,093.7	3,687.1
Production of goods and other services	213.3	233.4
Trading in merchandise	25.4	37.9
Letting and leasing	34.9	89.9
Total	20,514.6	18,201.3

The year-on-year development of turnover by the Group's continuing operations was mainly characterised by changes in the group of consolidated companies. Although the TQ3 Group and the TUI InfoTec Group were sold and therefore only included in consolidation on a pro rata temporis basis, the tourism division generated turnover of € 14.1 billion and thus matched 2005 levels. Adjusted for the effect of these divestments, turnover rose by 1.2% year-on-year. Turnover by the shipping division grew by € 2.4 billion or 63.1% to € 6.3 billion, in particular due to the first time inclusion of the CP Ships Group for a full financial year after the first time consolidation of the Group had only been effected in the last quarter in 2005. However, even adjusted for this effect the shipping division achieved substantial turnover growth.

(2) Other income

Other income

€ million	2006	2005
Book profits from the sale and measurement of assets incl. the disposal of subsidiaries	351.5	110.8
Reversal of negative goodwill with an effect on result	–	12.3
Rebilling, cost refunds and advertising cost subsidies	154.6	143.3
Foreign exchange gains	116.2	162.0
Income from the reduction in value adjustments of receivables and from write-offs of liabilities	11.6	25.1
Income from sideline operations	58.6	76.0
Income from letting and leasing contracts	16.6	16.3
Other income	39.9	58.0
Total	749.0	603.8

Book profits from the sale of fixed assets covered in particular the following transactions:

The Other tourism sector realised income of € 151 million from the divestment of the TQ3 Group. The Western Europe sector generated total income of € 24 million from the divestment of the specialist travel activities of TUI Nederland, the sale of an administrative building and the conclusion of sale-and-lease-back agreements for two aircraft. The Central Europe sector also generated income from sale-and-lease-back agreements for four aircraft, totalling € 24 million.

The shipping division recorded an income of € 3 million from sale-and-lease-back agreements for around 10,000 containers.

In the completed financial year, the Group's real estate companies generated one-off income of € 41 million when suspensive conditions from the selling agreement for 'Schacht Konrad', concluded at the end of the 1980s, were met.

The divestment of the 80% interest in Wolf GmbH generated earnings of € 35 million, carried in the other operative division.

In accordance with the rules of IFRS 5, the book profits from the discontinuance of operations had to be allocated to the relevant discontinuing operations and were therefore recognised under 'Result from discontinuing operations' in the profit and loss statement.

Income from sideline operations was income which from the Company's perspective did not represent typical operating income, e.g. income from the sale of materials or the wet lease of aircraft. Rebilling related, inter alia, to rebilling to hotels and travel agencies for brochure costs, advertising materials and costs incurred for TUI's health insurance company (BKK).

Income from the reversal of provisions was carried under the profit and loss statement item which had shown the expenses for the formation of the corresponding provisions in previous years.

(3) Change in inventories and other own work capitalised

Change in inventories and other own work capitalised

€ million	2006	2005
Change in stocks of finished goods and work in progress	0.6	- 23.4
Other own work capitalised	10.1	20.2
Total	10.7	- 3.2

(4) Cost of material and purchased services

Cost of material and purchased services

€ million	2006	2005
Cost of raw materials, supplies and purchased merchandise	2,143.1	1,511.9
Cost of purchased services	12,409.1	10,754.5
Rental and lease expenses	943.3	633.9
Total	15,495.5	12,900.3

The cost of raw materials and supplies mainly comprised the fuel costs incurred by the airlines and shipping companies. The cost of purchased services mainly related to third-party tourism services such as hotel expenses and cost of aviation and other transportation services.

Rental and lease expenses from operating lease contracts were shown under the item 'Cost of materials and purchased services' where these expenses were directly related to the turnover generated. The increase in rental and lease expenses on the previous year mainly related to the shipping division and primarily resulted from the first time consolidation of CP Ships for a full financial year.

The cost of materials ratio (ratio of cost of materials and purchased services to turnover) rose from 69.4% in 2005 to 71.5% in the tourism division. It also rose in the shipping division, which recorded an increase from 77.4% to 85.0%, primarily due to the increase in short-term charter rates and in the cost of bunker oil.

(5) Personnel costs

Personnel costs

€ million	2006	2005
Wages and salaries	1,968.4	1,841.8
Social security contributions, pension costs and benefits	467.0	462.4
Total	2,435.4	2,304.2

Pension costs included expenses for defined benefit pension obligations. The interest portion of the measurement of pension obligations was carried under financial expenses due to its financing character. The expected income from the related fund assets was carried under financial income. A detailed presentation of the pension obligations is provided under note 34.

The cost of wages and salaries rose by 6.9% year-on-year. This increase was mainly attributable to the first time inclusion of the CP Ships Group for a full financial year and the creation of provisions for social plans in tourism and shipping.

Disregarding the discontinuing operations, the average headcount declined by 1,353 employees to now 60,206 employees (excluding apprentices). In the shipping division, the average headcount rose from 5,179 to 8,545 in the 2006 financial year. The tourism division recorded a substantial decrease in the average headcount from 54,117 to 49,499.

Average annual headcount (excl. apprentices)

	2006	2005
Wage earners	1,454	1,490
Salaried employees	58,752	60,069
Total	60,206	61,559

(6) Depreciation and amortisation

Depreciation and amortisation included the amortisation of other intangible assets, depreciation of property, plant and equipment as well as of investment property. Depreciation and amortisation was based on the uniform useful lives out-lined in the explanations on accounting and measurement.

Depreciation and amortisation rose from € 504.9 million to € 667.4 million year-on-year. The increase was primarily attributable to the first time inclusion of the CP Ships Group for a full financial year, following the first time consolidation of the group in the fourth quarter of 2005.

(7) Impairments

Impairments

€ million	2006	2005
Impairment of goodwill	709.5	–
Impairment of other intangible assets, property, plant and equipment and investment property	54.3	18.3
Total	763.8	18.3

Goodwill had to be tested for impairment at the level of cash-generating units at least once a year. In accordance with the rules of the IASB, cash-generating units are the smallest identifiable groups of assets that generate cash inflows from continuing use that are largely independent of the cash inflows from other assets. In the tourism segment, cash-generating units were established for individual source

markets on a country-specific basis and in the destinations sector for individual subsidiaries. The shipping segment was defined as one single cash-generating unit in its entirety.

In the framework of the impairment tests, the carrying amounts of the tested entities plus the relevant goodwill allocated to the entities were compared with their recoverable amounts. The recoverable amount is the fair value less cost to sell or the value in use, if higher. If the carrying amounts exceeded the recoverable amount, impairment losses were recognised. Since the fair value less cost to sell regularly exceeds the value in use, the only value determined in the framework of the impairment tests is the fair value less cost to sell.

The fair value less cost to sell is the amount for which for the cash-generating unit could be exchanged between knowledgeable, willing parties in an arm's length transaction after deduction of the cost to sell. Since a fair value on an active market was not available for the entities to be tested for impairment, the fair value was determined by means of discounting the expected operating net cashflows.

Discounting was based on the medium-term planning for the entity under review, prepared as at the end of the 2006 financial year, after deduction of income tax payments. The assumptions underlying the planning are detailed in the forecast report included in the management report. The discounting was based on a weighted average cost of capital rate after taxes of 6.44% p.a. for the tourism division and 7.94% p.a. for the shipping division for the detailed planning period 2007 to 2009 and 5.44% p.a. resp. 6.94% p.a. for the period thereafter, taking account of a 1% growth deduction. The determined fair values have been validated using multiples customary in the market. The cost to sell to be included was based on experience from past transactions.

In the 2006 financial year, impairments of goodwill totalling € 709.5 million arose from the impairment tests in the tourism division. The impairments were particularly caused by the increasingly difficult market environment in the UK, Ireland and France. They were broken down as follows:

Impairments of goodwill

€ million	Impairment charged	Reduced growth rate (0.5%)	Increased interest rate (0.5%)
Northern Europe			
Source market UK	390.2	453.8	465.9
Source market Ireland	89.5	91.5	91.8
Western Europe			
Source market France/aviation	140.2	158.0	160.2
Source market France/tour operator	70.1	70.9	71.5
Destinations			
Magic Life Group	19.5	33.4	34.9

If the growth rate had been 0.5% lower, the impairments of goodwill in the sectors listed above would have been € 98.1 million higher in total. If the weighted average cost of capital rate after taxes applied to the detailed planning period 2007 to 2009 for the tourism division had been 0.5% p.a. higher and would thus have been 6.94% and 5.94% for the period thereafter, taking account of a growth deduction of 1.0% p.a., the impairments of goodwill required for the sectors mentioned above

would have been € 114.8 higher. No further impairments would have been required on top of that, neither from the increase in the weighted average cost of capital rate nor from the reduction in the growth rate.

In the completed financial year, a total of € 54.3 million of impairments of other intangible assets, property, plant and equipment and investment property were required. Of this total, € 30.4 million related to hotel buildings. Impairments had to be charged in particular for four Turkish hotel complexes due to the decline in bookings and the resulting reduction in the market value of the hotels. Further impairments of € 6.9 million were charged due to a reduction in the market value of a vacant office building. The other impairments were charged when the values in use or the expected net gains on disposal were lower than the respective carrying amounts. In 2005, impairments of € 18.3 million were charged for property, plant and equipment, primarily in tourism.

(8) Other expenses

Other expenses		
€ million	2006	2005
Commissions for tourism services and other distribution costs	811.3	943.2
Advertising expenses	420.2	388.8
Rental and lease expenses	227.9	200.9
Administrative expenses	378.9	330.2
Contributions, charges, fees and consultancy expenses	130.7	104.3
Expenses for insurance premiums	39.6	34.8
Exchange rate losses	164.8	70.9
Other expenses for financial and monetary transactions	49.8	90.5
External services and cost of non-operating materials	137.0	105.5
Losses from the disposal of assets and subsidiaries	54.8	25.3
Expenses for write-offs of receivables and value adjustments	27.4	23.7
Other taxes	33.2	41.1
Other operating expenses	41.8	130.3
Total	2,517.4	2,489.5

The item 'Commissions for tourism services and other distribution costs' mainly comprised travel agency commissions and commissions passed on from insurance policies covering travel contract cancellation costs.

In the framework of a sale-and-lease-back transaction, the shipping division sold seven container ships which were part of the CP Ships Group acquired in 2005. This transaction resulted in a book loss of € 16.6 million, in particular due to changes in exchange rates.

The divestment of the interest in the InfoTec Group created expenses of € 10.6 million in the 2006 financial year.

In accordance with IAS 21, the reduction of investments in foreign subsidiaries through capital reduction or dividends received from profits prior to the acquisition of the company caused a one-off realisation with an effect on results of exchange differences of € 65.0 million previously carried in equity with no effect on results.

Due to the application of IFRS 5, book losses from discontinuing operations were allocated to the respective discontinued operation and were therefore shown under 'Result from discontinuing operations' in the profit and loss statement.

(9) Financial income

Financial income		
€ million	2006	2005
Income from non-consolidated Group companies	2.0	1.0
Income from other investments	2.1	2.3
Income from profit transfer agreements with non-consolidated Group companies	3.7	8.1
Income from investments	7.8	11.4
Other income from securities and long-term loans	7.1	10.6
Interest and similar income from non-consolidated Group companies	0.6	3.1
Interest income from fund assets for the financing of pension obligations	86.9	74.3
Other interest and similar income	69.3	72.8
Interest income	163.9	160.8
Income from the measurement of interest hedges	0.3	12.8
Income from the measurement of other financial instruments	54.7	–
Total	226.7	185.0

In 2005, the indexing of the financial statements of foreign subsidiaries based in hyper-inflationary economies led to the realisation of purchasing power gains totalling € 8.4 million from the change in purchasing power parities in these countries, carried under interest income and expenses. The purchasing power gains were primarily attributable to the financial requirements of Turkish hotel companies. Since the beginning of 2006, none of the economies in which the TUI Group subsidiaries operate their businesses has been classified as hyper-inflationary.

The income and expenses from the development of the value of derivative financial instruments comprised results from the measurement of hedges not meeting the strict criteria of IAS 39, in particular structured forms of hedges used in order to hedge aircraft fuel prices. In addition, the conversion options of the convertible bond issued in October 2003 had to be carried as a derivative liability and measured with an effect on results. On 3 April 2006, TUI AG irrevocably waived its right to be able to deliver cash in the event of a conversion. As a result, the conversion options were again classified as equity instruments. Until the waiver, measurement income of € 15.0 million was generated in the 2006 financial year, following an expense of € 2.2 million in 2005.

(10) Financial expenses

Financial expenses		
€ million	2006	2005
Expenses relating to losses taken over from non-consolidated Group companies	2.8	3.5
Write-downs of available-for-sale financial instruments and loans	14.9	12.5
Interest and similar expenses to non-consolidated Group companies	1.4	2.9
Interest expenses from the measurement of pension obligations	119.4	105.5
Other interest and similar expenses	269.6	268.7
Interest expenses	390.4	377.1
Expenses relating to the measurement of other financial instruments	–	28.8
Total	408.1	421.9

The write-downs of available-for-sale financial instruments and loans comprised € 14.9 million of impairments (previous year: € 9.8 million).

(11) Result from companies
measured at equity

Result from companies measured at equity

€ million	2006	2005
Result from associated companies measured at equity	10.2	13.1
Result from joint ventures measured at equity	40.3	26.0
Total	50.5	39.1

The result from companies measured at equity comprised the prorated net result for the year of the associated companies and joint ventures as well as impairments of companies measured at equity. In the completed financial year, the result from companies measured at equity comprised impairments of € 3.3 million (previous year: no impairments). In the 2006 financial year, prorated losses of € 2.8 million of associated companies and joint ventures were not realised since the losses exceeded the value of the shareholdings. Accumulated losses not yet realised in the framework of at equity measurement totalled € 7.6 million.

Group share in individual items of profit and loss statements of joint ventures

€ million	2006	2005
Operating income	315.8	290.7
Operating expenses	254.7	246.0
Operating result	61.1	44.7
Financial result	- 6.8	- 9.4
Profit on ordinary activities	54.3	35.3
Income taxes	10.7	9.3
Profit for the year	43.6	26.0
Impairment of companies measured at equity	3.3	-
Result from joint ventures measured at equity	40.3	26.0

**Group share in individual items of profit and loss statements
of associated companies**

€ million	2006	2005
Operating income	173.8	147.7
Operating expenses	153.6	129.5
Operating result	20.2	18.2
Financial result	- 1.7	- 2.6
Profit on ordinary activities	18.5	15.6
Income taxes	8.3	4.8
Profit for the year	10.2	10.8
Reversal of negative goodwill	-	2.3
Result from associated companies measured at equity	10.2	13.1

(12) Income taxes

Breakdown of income tax expenses

€ million	2006	2005
Current income taxes		
in Germany	49.9	- 12.1
abroad	64.2	57.5
Deferred tax expenses	13.5	41.4
Total	127.6	86.8

The year-on-year increase in income tax expenses primarily related to domestic income tax expenses, attributable to a revaluation of tax risks. The reduction in deferred income tax expenses resulted from an increase in the valuation of deferred income taxes on tax loss carryforwards and a high value adjustment of capitalised tax loss carryforwards in 2005.

The German companies of the TUI Group had to pay an average trade income tax of approx. 18% (previous year: 17%) on trade earnings, which was deductible in the computation of the corporation tax. The increase in the average trade income tax rate was attributable to changes in the group of integrated companies for tax purposes as well as an increase in municipal factors. As in 2005, the corporation tax rate was 25.0%, plus a 5.5% solidarity surcharge on corporation tax. Deferred tax items were measured at a tax rate of 40.0% (previous year: 39.0%).

The calculation of foreign income tax was based on the laws and regulations applicable in the respective countries. The income tax rates applied to foreign companies varied from 10.0% to 42.1%.

In accordance with the rules of IAS 12, deferred taxes were determined in accordance with the liability method. Accordingly, tax decreases and increases considered as realisable in future were reported for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax base. Where the temporary differences between the financial balance sheet and the tax balance sheet related to items taken directly to equity, the deferred taxes relating to these differences were also directly offset against equity. Due to the elimination of deferred taxes with no effect on results, equity rose by € 64.7 million in the 2006 financial year (previous year: € 23.5 million). Deferred taxes with no effect on results mainly resulted from the treatment of actuarial gains and losses in connection with the recognition of pension obligations and the measurement of derivatives used to hedge exposure to cash flow risks.

Expected tax savings from the use of loss carryforwards assessed as recoverable in the future were capitalised. In measuring capitalised assets for future tax savings, the probability of recovering the expected tax benefit was taken into account.

Individual items of deferred tax assets and liabilities recognised in the balance sheet

€ million	31 Dec 2006		31 Dec 2005	
	Assets	Liabilities	Assets	Liabilities
Finance lease transactions	28.1	–	28.9	–
Recognition and measurement differences for property, plant and equipment and other non-current assets	85.2	371.5	79.0	403.0
Recognition differences for receivables and other assets	66.8	46.9	87.8	17.9
Fair values of financial instruments	104.6	87.0	36.6	72.0
(of which with no effect on results)	(91.3)	(15.5)	(16.9)	(62.2)
Measurement of pension provisions	193.3	21.6	253.8	16.1
(of which with no effect on results)	(166.0)	(0.2)	(220.3)	(0.2)
Recognition and measurement differences for other provisions	96.4	72.1	127.8	49.9
Other transactions	87.6	36.2	64.8	98.6
Capitalised tax savings from recoverable loss carryforwards	188.8	–	133.8	–
Netting of deferred tax assets and liabilities	- 575.2	- 575.2	- 513.1	- 513.1
Balance sheet amount	275.6	60.1	299.4	144.4

Deferred tax liabilities of € 3.4 million arose for temporary differences in connection with shares in associated companies and joint ventures. Deferred tax liabilities were not carried for temporary differences of € 104.0 million between net assets and the tax-related carrying amount of subsidiaries since these temporary differences were not expected to be reversed in the near future.

Capitalised loss carryforwards and time limits for non-capitalised loss carryforwards

€ million	31 Dec 2006	31 Dec 2005
Capitalised loss carryforwards	807.1	596.8
Non-capitalised loss carryforwards	4,234.4	4,233.6
of which loss carryforwards forfeitable within one year	21.8	9.4
of which loss carryforwards forfeitable within 2 to 5 years	96.3	87.3
of which loss carryforwards forfeitable within more than 5 years (excluding non-forfeitable loss carryforwards)	2.1	18.6
Non-forfeitable loss carryforwards	4,114.2	4,118.3
Total unused loss carryforwards	5,041.5	4,830.4

The loss carryforwards arose in companies in various countries, each with different income tax rates. For Germany, the loss carryforwards comprised a cumulative amount consisting of loss carryforwards for trade income taxes and corporate taxes. Potential tax savings of € 841.4 million (previous year: € 815.6 million) were not capitalised since the benefit of the underlying loss carryforwards was unlikely to be realised within the planning period.

Although there was no time limit for German loss carryforwards, as before, the annual use of such carryforwards was restricted due to the minimum taxation. Foreign loss carryforwards frequently had to be used within a specified country-specific time limit and were subject to restrictions concerning the use of these loss carryforwards for profits on ordinary activities, which were taken into account accordingly in the measurement.

In the 2006 financial year, tax reductions of € 1.6 million (previous year: € 0.1 million) resulted from the use of loss carryforwards previously assessed as non-realizable and for which therefore no assets had been recognised in previous years for the resulting potential tax savings. No tax reductions were realised from loss carrybacks in the 2006 financial year (previous year: € 0.7 million).

Development of capitalised tax savings from realisable loss carryforwards

€ million	2006	2005
Capitalised tax savings at the beginning of the financial year	133.8	130.3
Changes in consolidation and currency adjustment	- 0.9	+ 5.5
Use of loss carryforwards	- 10.3	- 18.6
Write-downs of tax savings from loss carryforwards capitalised in previous years	- 13.9	- 69.0
Capitalisation of tax savings from loss carryforwards	+ 80.1	+ 85.6
Capitalised tax savings at financial year-end	188.8	133.8

Capitalised tax savings from realisable loss carryforwards rose by € 55.0 million year-on-year. In 2005, capitalised tax savings had declined due to write-downs, in particular related to source market France.

The total income tax expense of € 127.6 million (previous year: € 86.8 million) in the period under review was derived as follows from an 'expected' income tax expense that would result from applying the statutory income tax rate of TUI AG as the parent company (aggregate income tax rate) to earnings before tax:

Reconciliation from expected to actual income tax expense

€ million	2006	2005
Earnings before taxes by continuing operations	- 736.1	386.9
Expected income tax expense (tax rate: 40%, previous year: 39%)	- 294.4	150.9
Variation from the difference between actual and expected tax rates	73.6	- 217.2
Income with no tax effect	- 96.2	- 20.4
Expenses with no tax effect	370.9	121.3
Temporary differences and losses for which no deferred taxes were recognised	46.8	61.7
Effective tax expenses and income relating to other periods	35.8	- 19.2
Other differences	- 8.9	9.7
Actual income tax expense	127.6	86.8

The difference between actual income tax expenses and expected income tax expenses was primarily due to non-tax-deductible impairments of goodwill. In addition, earnings by foreign subsidiaries were subject to a lower tax rate, while container shipping was affected by a tonnage tax unrelated to earnings.

(13) Result from discontinuing operations

Result from discontinuing operation

€ million	Earnings before income tax from current business operations	Taxes on income from current business operations	Earnings before income tax from the divestment and impairments	Taxes on income from the divestment and from impairments	Total
Special logistics	-	-	5.3	0.1	5.2
Trading	28.8	9.0	- 12.7	1.1	6.0
Other divestments	-	-	7.2	1.3	5.9
Total 2006	28.8	9.0	- 0.2	2.5	17.1
Special logistics	42.4	26.3	108.1	13.2	111.0
Trading	55.5	22.2	7.3	- 11.3	51.9
Other divestments	-	-	34.0	0.7	33.3
Total 2005	97.9	48.5	149.4	2.6	196.2

The result from discontinuing operations comprised both earnings after income taxes generated by the companies and impairments due to the measurement of disposal groups at fair value less cost to sell. Moreover, income and expenses from the divestment and the related income tax effects were shown in the result from discontinuing operations and allocated to the relevant segment of the discontinuing operation.

With the divestment of the US steel service companies, which had been allocated to the trading sector, in May of 2006, the Group sold its last remaining discontinuing operation. It was sold to US financial investor Platinum Equity at a selling price of the equivalent of € 210.8 million. After deduction of the cost to sell and the realisation of foreign currency exchange differences of a total of € 7.0 million, the divestment resulted in negative earnings of € 12.7 million.

The reimbursement of pension payments related to the divestment of the special logistics operations resulted in earnings before income taxes of € 5.3 million in the completed financial year.

Other divestments resulted in earnings before income taxes of € 7.2 million, primarily earnings from the recovery of previously disputed entitlements to dividend payments from a former company of the Preussag Energie Group.

Material items of the profit and loss statement of the discontinuing operations

€ million	2006	Trading 2005
Turnover	401.0	1,002.9
Operating income	0.3	1.1
Operating expenses	372.1	945.2
Financial income	0.4	1.2
Financial expenses	1.4	5.7
At equity result	0.6	1.2
Earnings before taxes	28.8	55.5
Income taxes	9.0	22.2
Earnings after taxes	19.8	33.3

€ million	2006	Special logistics 2005
Turnover	–	415.4
Operating income	–	11.2
Operating expenses	–	377.6
Financial income	–	2.9
Financial expenses	–	9.5
At equity result	–	–
Earnings before taxes	–	42.4
Income taxes	–	26.3
Earnings after taxes	–	16.1

Material assets and liabilities of the discontinuing operations

€ million	31 Dec 2006	Trading 31 Dec 2005
Fixed assets	–	70.5
Non-current receivables	–	4.2
Non-current assets	–	74.7
Inventories	–	176.7
Current receivables	–	139.3
Cash and cash equivalents	–	1.7
Current assets	–	317.7
Current provisions	–	21.7
Non-current provisions	–	2.6
Current financial liabilities	–	5.7
Non-current financial liabilities	–	47.5
Current other liabilities	–	96.8
Non-current other liabilities	–	0.2

Cash flow from operating, investing and financing activities

€ million	2006	Trading 2005
Change in cash and cash equivalents due to exchange rate fluctuations	0.1	0.2
Cash flow from operating activities	- 17.4	121.5
Cash flow from investing activities	- 2.0	- 4.4
Cash flow from financing activities	18.4	- 117.5
Change in cash and cash equivalents	- 0.9	- 0.2

Cash flow from operating, investing and financing activities

€ million	Special logistics	
	2006	2005
Change in cash and cash equivalents due to exchange rate fluctuations	–	–
Cash flow from operating activities	–	67.6
Cash flow from investing activities	–	- 32.5
Cash flow from financing activities	–	- 7.3
Change in cash and cash equivalents	–	27.8

(14) Share of TUI AG shareholders in Group profit for the year

The share in Group profit for the year attributable to TUI AG shareholders declined from € 458.0 million in 2005 to a negative result of € 893.3 million in the 2006 financial year.

(15) Minority interests in Group profit for the year

Minority interests in Group profit for the year

€ million	2006	2005
Profit attributable to minority interests	47.7	40.9
Loss attributable to minority interests	1.0	2.6
Total	46.7	38.3

Profit for the year attributable to minority interests mainly related to consolidated subsidiaries in the tourism division, in particular the companies of the RIU Group. Minority interests were also held in several incoming agencies.

(16) Earnings per share

In accordance with IAS 33, basic earnings per share were calculated by dividing the Group's net profit for the year attributable to TUI AG shareholders by the weighted average number of no-par value bearer shares outstanding during the financial year under review. The average number of shares resulted from the total of shares at the beginning of the financial year (250,732,575 shares) and the employee shares issued (287,280 shares, 13 days), included on a pro rata temporis basis.

A dilution of earnings per share occurs when the average number of shares is increased by adding the issue of potential shares from the warrants and conversion options. Diluting effects exclusively arose from the convertible bond issued in October 2003. Conversion has been possible since 2 January 2004. Calculation of the diluting effect is based on the assumption of complete conversion and the corresponding issue of shares at the beginning of the respective financial year. However, no diluting effect arises in the event of negative basic earnings per share.

In accordance with IAS 33.12, the dividend on the hybrid capital was deducted from the share in Group profit attributable to TUI AG shareholders at its after-tax amount, since the hybrid capital was carried as equity but did not represent an interest by TUI AG shareholders. For the hybrid capital, € 27.4 million of accrued dividend obligations were comprised in financial liabilities and were paid out in January 2007.

Earnings per share

	2006	2005
Group profit/loss for the year attributable to TUI AG shareholders (€ million)	- 893.3	458.0
Dividend effect on hybrid capital after income taxes (€ million)	- 25.2	-
Adjusted Group result for the year attributable to TUI AG shareholders (€ million)	- 918.5	458.0
Weighted average number of shares	250,742,835	200,188,847
Basic earnings per share (€)	- 3.66	2.29
Adjusted Group profit/loss for the year attributable to TUI AG shareholders (€ million)	- 918.5	458.0
Interest savings from convertible bonds (after tax)	15.6	15.4
Diluted and adjusted share in Group profit/loss for the year attributable to TUI AG shareholders (€ million)	- 902.9	473.4
Weighted average number of shares	250,742,835	200,188,847
Diluting effect from assumed exercise of convertible bonds	19,385,785	18,277,134
Weighted average number of shares (diluted)	270,128,620	218,465,981
Diluted earnings per share (€)	- 3.66	2.17

Notes on the Consolidated Balance Sheet

(17) Goodwill

Goodwill		
€ million	2006	2005
Historical cost		
Balance as at 1 Jan	3,836.2	3,763.8
First time application of IFRS 5	–	– 9.6
Adjusted balance as at 1 Jan	3,836.2	3,754.2
Exchange differences	29.1	60.6
Additions due to changes in consolidation	0.1	0.1
Additions	9.1	136.1
Disposals ¹⁾	18.4	9.8
Reclassifications	– 4.4	– 105.0
Balance as at 31 Dec	3,851.7	3,836.2
Impairment		
Balance as at 1 Jan	0.0	0.0
First time application of IFRS 5	–	–
Adjusted balance as at 1 Jan	0.0	0.0
Exchange differences	7.4	–
Additions due to changes in consolidation	–	–
Impairment for the current year	709.5	–
Disposals ¹⁾	–	–
Reclassifications	–	–
Balance as at 31 Dec	716.9	0.0
Carrying amounts as at 31 Dec	3,134.8	3,836.2

¹⁾ of which disposals due to changes in consolidation of € 6.6 million and € 0.0 million, respectively (previous year: no disposals)

Due to the first time application of IFRS 5, assets of the discontinuing operations and other non-current assets held for sale were summarised as a disposal group in the balance sheet in 2005. Reclassifications comprised reclassifications of goodwill classified as held for sale in the course of the financial year under review.

Following the completion of the planning process, capitalised goodwill was tested for impairment at the level of cash-generating units in the framework of the annual financial statements. In the 2006 financial year impairments of € 709.5 million were required. Detailed information on the implementation of the impairment tests is provided under note 7.

In accordance with the rules of IAS 21, goodwill allocated to individual segments and sectors was recognised in the functional currency of the subsidiaries and subsequently translated in the framework of the preparation of the consolidated financial statements. In analogy to the treatment of other differences from the translation of annual financial statements of foreign subsidiaries, differences due to exchange rate fluctuations between the exchange rate at the date of acquisition of

the subsidiary and the exchange rate at the balance sheet date were taken directly to and recognised separately under equity. In the 2006 financial year, the carrying amount of goodwill rose by € 21.7 million (previous year: € 60.6 million) due to exchange differences. In addition, goodwill of GBP 4.5 million (€ 6.7 million) arose from the acquisition of Explorers Travel Club Ltd., Camberly (UK). The divestment of subsidiaries in the financial year under review resulted in a disposal of goodwill of € 18.4 million.

A substantial portion of the goodwill recognised related to the source markets UK (€ 1,169.4 million), Germany (€ 338.9 million) and the Nordic countries (€ 321.0 million). In the hotel companies sector, goodwill of € 356.8 million was carried for the RIU Group. Goodwill of € 107.3 million related to the shipping segment.

The goodwill of € 0.9 million (previous year: € 19.9 million) from the acquisition of minority interests in the financial year under review was directly offset against other revenue reserves.

(18) Other intangible assets

Other intangible assets

€ million	Concessions, industrial property rights and similar rights and values	Self- generated software	Transport and leasing contracts	Customer base	Payments on account	Total
Historical cost						
Balance as at 1 Jan 2005	293.3	194.8	–	–	3.1	491.2
First time application of IFRS 5	- 6.1	–	–	–	–	- 6.1
Adjusted balance as at 1 Jan 2005	287.2	194.8	–	–	3.1	485.1
Exchange differences	4.2	2.7	7.1	1.6	–	15.6
Additions due to changes in consolidation	11.2	115.2	571.2	137.5	–	835.1
Additions	29.0	12.4	–	–	2.4	43.8
Disposals	13.4	6.9	–	–	1.2	21.5 ¹⁾
Reclassifications	- 0.2	–	–	–	- 1.4	- 1.6
Balance as at 31 Dec 2005	318.0	318.2	578.3	139.1	2.9	1,356.5
Exchange differences	0.8	- 9.5	- 58.6	- 14.1	–	- 81.4
Additions due to changes in consolidation	1.6	–	–	2.2	–	3.8
Additions	30.9	11.7	–	–	3.3	45.9
Disposals	80.7	219.2	–	–	0.2	300.1 ²⁾
Reclassifications	14.7	- 11.4	- 66.9	- 21.2	- 2.0	- 86.8
Balance as at 31 Dec 2006	285.3	89.8	452.8	106.0	4.0	937.9
Amortisation						
Balance as at 1 Jan 2005	207.2	105.9	–	–	0.0	313.1
First time application of IFRS 5	- 5.6	–	–	–	–	- 5.6
Adjusted balance as at 1 Jan 2005	201.6	105.9	–	–	0.0	307.5
Exchange differences	2.4	2.0	0.4	0.2	–	5.0
Additions due to changes in consolidation	3.3	115.2	–	4.4	–	122.9
Amortisation for the current year	33.1	31.7	8.6	0.9	–	74.3
Disposals	12.6	1.7	–	–	–	14.3 ¹⁾
Reclassifications	- 2.3	–	–	–	–	- 2.3
Balance as at 31 Dec 2005	225.5	253.1	9.0	5.5	0.0	493.1
Exchange differences	0.6	- 10.0	- 3.6	- 1.0	–	- 14.0
Additions due to changes in consolidation	–	–	–	–	–	–
Amortisation for the current year	39.0	16.4	50.2	8.1	–	113.7
Disposals	71.1	185.0	–	–	–	256.1 ²⁾
Reclassifications	11.5	- 11.0	- 2.2	- 2.0	–	- 3.7
Balance as at 31 Dec 2006	205.5	63.5	53.4	10.6	0.0	333.0
Carrying amounts as at 31 Dec 2005	92.5	65.1	569.3	133.6	2.9	863.4
Carrying amounts as at 31 Dec 2006	79.8	26.3	399.4	95.4	4.0	604.9

¹⁾ of which no disposals due to changes in consolidation

²⁾ of which disposals due to changes in consolidation of € 200.0 million and € 159.7 million, respectively

Self-generated software related to computer programmes for tourism applications exclusively used internally by the Group.

The other intangible assets acquired in the wake of the acquisition of the CP Ships Group, relating in particular to advantageous leasing and transport agreements and the customer base, were amortised annually in line with the utilisation of the economic benefit on the basis of the benefit determining the corresponding asset. The leasing and transport agreements were amortised over the corresponding remaining terms of the agreements, i.e. over periods of three to 36 years, while the customer base was amortised over a period of 20 years in container shipping.

Impairments of € 8.3 million were charged in the completed financial year. Impairments broke down into € 3.5 million of impairments of concessions, industrial property rights and similar rights and values as well as € 4.7 million of impairments of self-generated software. As in the previous year, no write-backs to other intangible assets were effected in the year under review. Reclassifications mainly comprised reclassifications of the assets held for sale of € 90.8 million and € 6.4 million, respectively. As in 2005, there were no material restraints on ownership or disposal.

(19) Investment property

Investment property

€ million	2006	2005
Historical cost		
Balance as at 1 Jan	144.5	217.3
Exchange differences	–	–
Additions due to changes in consolidation	–	–
Additions	7.5	16.5
Disposals	11.0	71.1
Reclassifications	16.1	- 18.2
Balance as at 31 Dec	157.1	144.5
Depreciation		
Balance as at 1 Jan	54.3	76.9
First time application of IFRS 5	–	–
Adjusted balance as at 1 Jan	54.3	76.9
Exchange differences	–	–
Additions due to changes in consolidation	–	–
Depreciation for the current year	11.0	6.2
Disposals	8.9	17.5
Reclassifications	5.0	- 11.3
Balance as at 31 Dec	61.4	54.3
Carrying amounts as at 31 Dec	95.7	90.2

As a matter of principle, real estate owned by the Group was occupied for use in the framework of the Group's ordinary business activities. In addition, the Group owned commercial property and apartments which met the definition of investment property under IAS 40. The carrying amount of this investment property reported in fixed assets totalled € 95.7 million (previous year: € 90.2 million). The fair values totalling € 104.3 million (previous year: € 108.2 million) were calculated by the Group's own real estate companies, without consulting an external expert, on the basis of comparable market rents. The fair value of property for which purchase contracts had already been concluded was the selling price. Investment property generated total income of € 41.3 million (previous year: € 88.6 million). The generation of this income was associated with expenses of € 38.7 million (previous year: € 70.3 million) in the 2006 financial year. Impairments of € 7.4 million were charged for investment property.

(20) Property, plant
and equipment

Property, plant and equipment

€ million	Real estate with hotels	Other real estate, land rights and buildings incl. buildings on third-party properties	Aircraft
Historical cost			
Balance as at 1 Jan 2005	887.5	727.7	2,203.5
First time application of IFRS 5	–	- 61.7	–
Adjusted balance as at 1 Jan 2005	887.5	666.0	2,203.5
Exchange differences	77.2	4.2	25.9
Additions due to changes in consolidation	125.0	0.2	–
Additions	40.5	15.7	145.5
Disposals	–	74.6	260.4
Reclassifications	- 28.0	1.4	132.3
Balance as at 31 Dec 2005	1,102.2	612.9	2,246.8
Exchange differences	- 32.6	0.2	18.6
Additions due to changes in consolidation	28.2	6.8	–
Additions	91.5	11.5	180.1
Disposals	7.8	89.7	242.7
Reclassifications	- 27.8	- 3.7	113.0
Balance as at 31 Dec 2006	1,153.7	538.0	2,315.8
Depreciation			
Balance as at 1 Jan 2005	165.5	247.4	918.5
First time application of IFRS 5	–	- 30.5	–
Adjusted balance as at 1 Jan 2005	165.5	216.9	918.5
Exchange differences	16.3	1.6	11.9
Additions due to changes in consolidation	24.5	0.1	–
Depreciation for the current year	35.3	21.3	140.8
Disposals	3.3	22.8	142.0
Reclassifications	- 5.7	- 4.6	–
Balance as at 31 Dec 2005	232.6	212.5	929.2
Exchange differences	- 2.6	1.1	12.1
Additions due to changes in consolidation	9.7	1.3	–
Depreciation for the current year	66.2	12.3	159.7
Disposals	3.9	51.3	128.5
Reclassifications	- 9.3	- 2.5	–
Balance as at 31 Dec 2006	292.7	173.4	972.5
Carrying amounts as at 31 Dec 2005	869.6	400.4	1,317.6
Carrying amounts as at 31 Dec 2006	861.0	364.6	1,343.3

¹⁾ of which disposals due to changes in consolidation of € 15.6 million and € 4.7 million, respectively

²⁾ of which disposals due to changes in consolidation of € 210.6 million and € 141.5 million, respectively

At the balance sheet date, the carrying amount of property, plant and equipment subject to restraints on ownership amounted to € 16.2 million (previous year: € 24.8 million), including an amount of € 14.4 million (previous year: € 17.5 million) pledged as security.

No reversals of depreciation of property, plant and equipment were effected in the Group (previous year: € 5.6 million); impairments totalled € 38.6 million and included an amount of € 30.4 million for real estate with hotels as well as € 8.2 million for other plants, operating and office equipment.

Ships and wagons	Container and container semitrailers	Machinery and fixtures	Other plants, operating and office equipment	Assets under construction	Payments on account	Total
2,290.2	668.7	263.9	1,035.6	132.1	75.0	8,284.2
- 782.3	- 21.5	- 78.9	- 19.0	- 1.5	- 2.2	- 967.1
1,507.9	647.2	185.0	1,016.6	130.6	72.8	7,317.1
21.9	2.4	4.1	14.3	0.1	–	150.1
1,402.7	196.6	128.8	140.4	4.5	–	1,998.2
251.2	96.9	24.3	133.0	59.6	135.2	901.9
9.0	62.0	5.7	83.4	0.3	19.2	514.6 ¹⁾
1.0	–	- 4.0	- 38.0	- 123.4	- 40.1	- 98.8
3,175.7	881.1	332.5	1,182.9	71.1	148.7	9,753.9
- 67.5	4.0	- 9.5	- 10.4	- 0.4	0.6	- 97.0
–	–	–	15.2	–	0.1	50.3
120.4	38.1	16.3	119.3	30.5	77.7	685.4
566.2	81.1	55.5	264.5	4.1	8.8	1,320.4 ²⁾
0.3	–	- 81.9	- 1.7	- 21.1	- 91.3	- 114.2
2,662.7	842.1	201.9	1,040.8	76.0	127.0	8,958.0
1,225.9	381.4	175.0	688.6	0.0	0.0	3,802.3
- 473.6	- 18.6	- 63.3	- 15.6	–	–	- 601.6
752.3	362.8	111.7	673.0	0.0	0.0	3,200.7
6.9	1.0	3.2	8.6	–	–	49.5
282.6	60.0	65.7	91.5	–	–	524.4
74.1	40.2	18.9	112.0	–	–	442.6
4.3	56.0	5.1	71.7	–	–	305.2 ¹⁾
–	–	- 3.7	- 26.3	–	–	- 40.3
1,111.6	408.0	190.7	787.1	0.0	0.0	3,871.7
- 5.0	4.0	- 5.7	- 11.9	–	–	- 8.0
–	–	–	11.7	–	–	22.7
158.0	57.2	21.9	121.7	–	–	597.0
115.3	33.0	42.4	227.6	–	–	602.0 ³⁾
- 10.0	10.0	- 51.3	- 6.0	–	–	- 69.1
1,139.3	446.2	113.2	675.0	0.0	0.0	3,812.3
2,064.1	473.1	141.8	395.8	71.1	148.7	5,882.2
1,523.4	395.9	88.7	365.8	76.0	127.0	5,145.7

Reclassifications of € 103.7 million resp. € 63.5 million related in particular to the reclassification of assets held for sale. In the 2006 financial year, these assets primarily comprised the assets of Montreal Gateway Terminals and a hotel.

Property, plant and equipment comprised all leased assets in which consolidated subsidiaries carried all the risks and rewards incident to ownership of the assets.

Development of leased assets

€ million	Buildings	Aircraft	Ships and wagons	Containers	Other	Total
Historical cost						
Balance as at 1 Jan 2005	84.2	647.5	135.9	89.6	31.0	988.2
First time application of IFRS 5	–	–	- 135.9	- 0.8	–	- 136.7
Adjusted balance as at 1 Jan 2005	84.2	647.5	0.0	88.8	31.0	851.5
Exchange differences	–	11.9	1.8	1.1	0.1	14.9
Additions due to changes in consolidation	–	–	148.3	86.0	9.0	243.3
Additions	–	63.4	60.9	–	0.2	124.5
Disposals	46.7	–	–	–	2.2	48.9 ¹⁾
Reclassifications	- 26.7	- 251.6	- 150.1	- 166.6	- 16.5	- 611.5
Balance as at 31 Dec 2005	10.8	471.2	60.9	9.3	21.6	573.8
Exchange differences	–	3.9	–	- 0.9	- 0.3	2.7
Additions due to changes in consolidation	–	–	–	–	–	–
Additions	0.4	0.2	70.5	2.3	3.5	76.9
Disposals	–	–	131.4	–	17.3	148.7 ²⁾
Reclassifications	–	40.2	–	0.3	- 0.3	40.2
Balance as at 31 Dec 2006	11.2	515.5	0.0	11.0	7.2	544.9
Depreciation						
Balance as at 1 Jan 2005	22.0	206.8	53.8	43.3	11.2	337.1
First time application of IFRS 5	–	–	- 53.8	- 0.5	–	- 54.3
Adjusted balance as at 1 Jan 2005	22.0	206.8	0.0	42.8	11.2	282.8
Exchange differences	–	5.7	0.4	0.1	–	6.2
Additions due to changes in consolidation	–	–	25.4	5.4	1.9	32.7
Depreciation for the current year	0.6	40.2	2.7	0.8	7.6	51.9
Disposals	13.7	–	–	–	2.2	15.9 ¹⁾
Reclassifications	- 6.7	- 144.0	- 26.6	- 46.4	- 4.2	- 227.9
Balance as at 31 Dec 2005	2.2	108.7	1.9	2.7	14.3	129.8
Exchange differences	–	1.9	–	0.3	–	2.2
Additions due to changes in consolidation	–	–	–	–	–	–
Depreciation for the current year	0.2	40.9	5.3	0.8	4.0	51.2
Disposals	–	–	7.2	–	14.8	22.0 ²⁾
Reclassifications	–	39.8	–	0.3	- 0.3	39.8
Balance as at 31 Dec 2006	2.4	191.3	0.0	4.1	3.2	201.0
Carrying amounts as at 31 Dec 2005	8.6	362.5	59.0	6.6	7.3	444.0
Carrying amounts as at 31 Dec 2006	8.8	324.2	0.0	6.9	4.0	343.9

¹⁾ no disposals due to changes in consolidation

²⁾ of which disposals due to changes in consolidation of € 7.8 million and € 6.2 million, respectively

The reclassifications of the development of leased assets in particular comprised acquisitions of ownership of leased assets.

The payment obligations resulting from future lease payments were carried as liabilities, without taking account of future interest expenses. Payments due in the future under finance leases totalled € 346.7 million (previous year: € 464.9 million). The decline in the total carrying amount of leased property, plant and equipment and future lease payments resulted above all from the conversion of two container ships into operating leases. Group companies accepted guarantees for the residual values of the leased assets totalling € 135.1 million (previous year: € 135.1 million).

Reconciliation of future lease payments to liabilities from finance leases

€ million				31 Dec 2006	31 Dec 2005
	up to 1 year	Remaining terms more than 1-5 years	more than 5 years	Total	Total
Total future lease payments	41.9	268.4	36.4	346.7	464.9
Interest portion	13.8	39.7	2.1	55.6	70.5
Liabilities from finance leases	28.1	228.7	34.3	290.8	394.4

However, Group companies were not only lessees but also lessors under finance leases. To a small extent, the Group leased out Group-owned aircraft to non-Group third parties on the basis of finance leases.

Reconciliation of future lease payments to be received to receivables from finance leases

€ million				31 Dec 2006	31 Dec 2005
	up to 1 year	Remaining terms more than 1-5 years	more than 5 years	Total	Total
Total future lease payments to be received	2.8	7.3	–	10.1	14.3
Interest portion	0.4	0.1	–	0.5	1.2
Receivables from finance leases	2.4	7.2	–	9.6	13.1

In the framework of ordinary business activities, Group companies generated turnover of € 34.9 million (previous year: € 160.1 million) from leasing and renting out investment property on the basis of short-term contracts. At € 107.8 million, the turnover generated in 2005 was primarily generated by the rail logistics sector of VTG (UB I), sold in December 2005.

(21) Companies measured
at equity

Companies measured at equity

€ million	Measured at equity		Total
	Joint ventures	Associated companies	
Historical cost			
Balance as at 1 Jan 2005	259.2	80.3	339.5
First time application of IFRS 5	- 1.7	- 5.7	- 7.4
Adjusted balance as at 1 Jan 2005	257.5	74.6	332.1
Exchange differences	6.0	0.1	6.1
Additions due to changes in consolidation	-	-	-
Additions	73.8	22.6	96.4
Disposals	26.4	42.9	69.3 ¹⁾
Reclassifications	-	7.4	7.4
Balance as at 31 Dec 2005	310.9	61.8	372.7
Exchange differences	- 4.1	- 0.6	- 4.7
Additions due to changes in consolidation	15.4	3.1	18.5
Additions	53.2	11.9	65.1
Disposals	42.4	3.6	46.0 ²⁾
Reclassifications	12.4	- 7.0	5.4
Balance as at 31 Dec 2006	345.4	65.6	411.0
Impairments			
Balance as at 1 Jan 2005	0.0	0.0	0.0
First time application of IFRS 5	-	-	-
Adjusted balance as at 1 Jan 2005	0.0	0.0	0.0
Exchange differences	-	-	-
Additions due to changes in consolidation	-	-	-
Impairments for the current year	-	-	-
Disposals	-	-	-
Reclassifications	-	-	-
Balance as at 31 Dec 2005	0.0	0.0	0.0
Exchange differences	-	-	-
Additions due to changes in consolidation	-	-	-
Impairments for the current year	3.3	-	3.3
Disposals	-	-	-
Reclassifications	-	-	-
Balance as at 31 Dec 2006	3.3	0.0	3.3
Carrying amounts as at 31 Dec 2005	310.9	61.8	372.7
Carrying amounts as at 31 Dec 2006	342.1	65.6	407.7

¹⁾ of which disposals due to changes in consolidation of € 35.8 million

²⁾ no disposals due to changes in consolidation

For associated companies and joint ventures measured at equity, proportionate profits for the year were shown under additions and disposals.

For associated companies and companies jointly managed by the Group and one or several partners (joint ventures), the Group share corresponded to the share in the individual assets and liabilities of the joint ventures.

Group share in assets and liabilities of joint ventures

€ million	31 Dec 2006	31 Dec 2005
Goodwill from equity measurement	36.8	35.7
Non-current assets	458.5	474.5
Current assets	118.0	90.0
Non-current provisions and liabilities	160.0	167.8
Current provisions and liabilities	111.2	121.5
Joint ventures measured at equity	342.1	310.9

Group share in assets and liabilities of associated companies

€ million	31 Dec 2006	31 Dec 2005
Goodwill from equity measurement	15.5	15.7
Non-current assets	103.9	106.5
Current assets	51.5	45.4
Non-current provisions and liabilities	61.0	61.1
Current provisions and liabilities	44.3	44.7
Associated companies measured at equity	65.6	61.8

(22) Financial assets available for sale

Financial assets available for sale

€ million	31 Dec 2006	31 Dec 2005
Shares in non-consolidated Group companies	49.5	64.5
Shares in affiliated companies	45.5	38.7
Other securities	28.1	25.5
Total	123.1	128.7

Where a listed market price in an active market was not available for interests held and other methods to determine an objective market value did not produce any reliable results, the interests were measured at amortised cost. The securities shown included an amount of € 5.8 million (previous year: € 5.8 million) of current securities.

Due to the selling agreement which was concluded in the financial year under review and was still subject to suspensive conditions, Hapag-Lloyd's minority interest in Germanischer Lloyd AG was reclassified to assets held for sale.

(23) Trade accounts receivable and other receivables

Trade accounts receivable and other receivables

€ million	31 Dec 2006		31 Dec 2005	
	Remaining term of more than 1 year	Total	Total	Remaining term of more than 1 year
Trade accounts receivable	–	887.8	965.3	–
Advances and loans	285.3	589.1	547.6	307.8
Other receivables and assets	66.4	652.8	708.5	57.1
Total	351.7	2,129.7	2,221.4	364.9

Trade accounts receivable

€ million	31 Dec 2006	31 Dec 2005
From third parties	879.5	948.3
From non-consolidated Group companies	2.3	11.5
From affiliates	6.0	5.5
Total	887.8	965.3

Advances and loans

€ million	31 Dec 2006		31 Dec 2005	
	Remaining term of more than 1 year	Total	Total	Remaining term of more than 1 year
Advances to non-consolidated Group companies	4.5	9.3	34.9	28.8
Loans to non-consolidated Group companies	1.2	1.2	1.1	0.3
Advances to affiliates	0.9	16.4	23.3	9.8
Loans to affiliates	1.1	9.7	6.4	3.5
Advances to third parties	13.3	66.3	21.7	4.0
Loans to third parties	150.9	176.2	191.8	167.8
Payments on account	113.4	310.0	268.4	93.6
Total	285.3	589.1	547.6	307.8

Payments on account mainly related to advance payments for future tourism services, in particular hotel services, customary in the industry.

Loans and advances were recognised at amortised cost, based on the effective interest method.

Other receivables and assets

€ million	31 Dec 2006		31 Dec 2005	
	Remaining term of more than 1 year	Total	Total	Remaining term of more than 1 year
Other receivables from non-consolidated Group companies	2.0	4.8	8.5	0.4
Other receivables from affiliates	2.8	8.7	10.4	2.5
Interest deferral	3.9	15.8	20.6	9.0
Receivables from finance leases	7.2	9.6	13.1	10.6
Other tax refund claims	9.6	86.5	61.8	–
Other assets	38.8	221.6	312.5	34.4
Prepaid expenses	2.1	305.8	281.6	0.2
Total	66.4	652.8	708.5	57.1

Prepaid expenses mainly comprised accrued expenses for return flights taking place after the balance sheet date and accrued rental costs.

(24) Derivative financial instruments

Derivative financial instruments

€ million	31 Dec 2006		31 Dec 2005	
	Remaining term of more than 1 year	Total	Total	Remaining term of more than 1 year
Receivables from derivative financial instruments	7.8	84.0	200.2	51.1

Derivative financial instruments, primarily serving to hedge the future operative business, are detailed in the explanations on financial instruments.

(25) Current and deferred income tax claims

Income tax claims

€ million	31 Dec 2006	31 Dec 2005
Deferred income tax claims	275.6	299.4
Current income tax claims	23.4	15.6
Total	299.0	315.0

Assets from future income tax benefits comprised deferred tax assets from temporary differences between the carrying amounts in the consolidated balance sheet and the tax bases as well as the tax savings from loss carryforwards assessed as recoverable in the future. Deferred tax assets are outlined in detail under note 12. Deferred income tax assets included an amount of € 200.2 million (previous year: € 279.0 million) to be realised in more than twelve months. This item also included current income tax claims.

(26) Inventories

Inventories

€ million	31 Dec 2006	31 Dec 2005
Raw materials and supplies	102.1	110.7
Work in progress	3.5	9.8
Finished goods and merchandise	23.7	29.9
Total	129.3	150.4

As in the previous year, no inventories had to be carried at lower net realisable value in the 2006 financial year. No reversals of write-downs of inventories were effected in 2005 and 2006.

(27) Cash and cash equivalents

Cash and cash equivalents

€ million	31 Dec 2006	31 Dec 2005
Bank deposits	667.5	584.1
Cash in hand and cheques	21.2	15.1
Total	688.7	599.2

As in the previous year, cash and cash equivalents were not subject to any significant restraints on disposal.

(28) Assets held for sale

Assets held for sale

€ million	31 Dec 2006	31 Dec 2005
Trading	–	392.4
TQ3 Group	–	263.9
Other non-current assets	171.4	58.4
Total	171.4	714.7

Due to the first time application of IFRS 5 in the 2005 financial year, the assets of the discontinuing operations and the non-current assets subject to a specific plan to sell were combined into a disposal group in a single balance sheet item. In the course of the 2006 financial year, both the US steel trading activities and the TQ3 Group were sold. Apart from real estate assets and land, the material assets of Montreal Gateway Terminals were classified as a disposal group at the end of the 2006 financial year. The port terminals were part of the business of CP Ships, the container shipping line acquired in 2005. A selling agreement was concluded in February 2007. Details concerning the transaction are provided in the report on events after the balance sheet date in the management report. In addition, Hapag-Lloyd's minority share in Germanischer Lloyd AG worth € 15.1 million was classified as 'held for sale' due to the selling agreement concluded at the end of the completed financial year which was still subject to suspensive conditions at the balance sheet date. The suspensive conditions were met on 5 January 2007. The divestment of a hotel of the RIU Group, classified as held for sale, is expected for the 2007 financial year. In connection with the assets held for sale and the associated liabilities,

Group equity

€ million	Subscribed capital (29)	Capital reserves (30)	Other revenue reserves	Differences from currency translation	Revaluation reserve
Balance as at 31 Dec 2004	457.0	1,566.3	1,294.3	- 567.8	10.6
Dividend payments			- 134.8		
Issue of employee shares	1.2	6.6			
First time consolidation					
Deconsolidation			- 2.7		
Effect of the acquisition of minority interests			- 20.0		
Effect of step acquisitions					11.3
Income and expenses directly taken to equity			458.0	174.0	
Tax items directly offset against equity		13.1			
Capital increase	182.8	799.0			
Raising of hybrid capital					
Balance as at 31 Dec 2005	641.0	2,385.0	1,594.8	- 393.8	21.9
Dividend payments			- 189.0		
Hybrid capital dividend			- 27.4		
Issue of employee shares	0.7	4.1			
Reclassification of conversion options		11.7			
First time consolidation			- 11.7		
Deconsolidation			- 0.9		
Effect of the acquisition of minority interests			- 45.1		
Effect of option writer position from an option on minority interests					
Income and expenses directly taken to equity			- 905.1	- 130.3	
Tax items directly offset against equity		- 4.6			
Balance as at 31 Dec 2006	641.7	2,396.2	415.6	- 524.1	21.9

Income and expenses recognised directly in equity with no effect on results are shown separately in the statement of recognised income and expenses.

differences of € 4.6 million arising from currency translation had to be taken to equity with no effect on results in the 2005 financial year.

Port Terminals

€ million	31 Dec 2006
Goodwill	4.4
Transport and lease agreements	64.0
Customer base	19.3
Property, plant and equipment	32.7
Fixed assets	120.4
Current assets	11.4

TQ3 Group

€ million	31 Dec 2005
Fixed assets	144.4
Non-current receivables	2.3
Non-current assets	146.7
Inventories	-
Current receivables	109.9
Cash and cash equivalents	7.3
Current assets	117.2

A breakdown of the assets of the discontinuing operations is provided in note 13.

Revaluation reserve for financial assets	Reserve according to IAS 19	Revenue reserves (31)	Hybrid capital (32)	Equity before minority interests	Minority interests (33)	Total
- 37.5	- 299.6	400.0	0.0	2,423.3	236.4	2,659.7
		- 134.8		- 134.8	- 12.3	- 147.1
				7.8		7.8
				0.0	- 9.9	- 9.9
	2.7			0.0	0.6	0.6
		- 20.0		- 20.0	- 0.4	- 20.4
		11.3		11.3		11.3
192.2	- 304.3	519.9		519.9	48.1	568.0
- 83.5	90.9	7.4	3.3	23.8	- 0.3	23.5
				981.8		981.8
			291.5	291.5		291.5
71.2	- 510.3	783.8	294.8	4,104.6	262.2	4,366.8
		- 189.0		- 189.0	- 19.0	- 208.0
		- 27.4		- 27.4		- 27.4
				4.8		4.8
				11.7		11.7
	11.7			0.0	8.4	8.4
				0.0	- 11.3	- 11.3
		- 0.9		- 0.9	0.9	0.0
		- 45.1		- 45.1		- 45.1
- 328.9	176.0	- 1,188.3		- 1,188.3	34.0	- 1,154.3
120.8	- 51.8	69.0		64.4	0.3	64.7
- 136.9	- 374.4	- 597.9	294.8	2,734.8	275.5	3,010.3

(29) Subscribed capital

The subscribed capital of TUI AG consisted of no-par value shares, each representing an identical share in the capital stock. The proportionate share in the capital stock per no-par value share was around € 2.56. In July 2005, the previous bearer shares were converted to registered shares.

The subscribed capital of TUI AG, registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover, rose by € 0.7 million to a total of € 641.7 million due to the issuance of 287,280 employee shares. Subscribed capital thus comprised 251,019,855 shares (previous year: 250,732,575 shares) at the end of the financial year.

The Annual General meeting of 10 May 2006 authorised the Executive Board of TUI AG to purchase own shares of up to 10% of the subscribed capital. The authorisation will expire on 9 November 2007 and replaces the authorisation granted by the Annual General Meeting of 11 May 2005. To date, the possibility of acquiring own shares has not been used.

Conditional capital

The Annual General Meeting of 18 June 2003 adopted a resolution creating conditional capital of € 90.0 million. The conditional capital was intended to service conversion options and warrants from the issue of one or several bonds with a total par value of up to € 1.0 billion by 17 June 2008. Convertible bonds totalling around € 384.6 million were issued in October 2003. The conversion options entitled the holders to convert each convertible bond of a par value of € 50,000.00 into

2,520 shares in TUI AG. This far, the holders of the convertible bonds have not yet exercised any conversion rights.

In order to retain the possibility of issuing bonds, the Annual General Meeting of 10 May 2006 adopted a resolution creating further conditional capital of € 100.0 million. Accordingly, bonds with conversion options and warrants as well as profit-sharing rights and income bonds with a total par value of up to € 1.0 billion (with and without fixed terms) may be issued by 9 May 2011. The corresponding resolution by the Annual General Meeting of 18 May 2004 on the creation of conditional capital of € 70.0 million was cancelled.

Authorised capital

At the end of the 2005 financial year, the authorised capital of € 10.0 million created at the Annual General Meeting of 18 May 2004 for the issuance of employee shares stood at € 8.1 million. The authorised capital was partly used in the 2006 financial year to issue 287,280 employee shares (previous year: 473,420 shares). The remaining authorised capital for the issuance of employee shares thus stood at € 7.3 million at the end of the 2006 financial year. The Executive Board of TUI AG has been authorised to use this capital by 17 May 2009.

In addition to the authorised capital for the issuance of employee shares, the Annual General Meeting of 10 May 2006 resolved to create authorised capital for the issuance of new shares against cash or non-cash contribution totalling € 310.0 million. The issue of new shares against non-cash contribution was limited to € 128.0 million. The Executive Board of TUI AG has been authorised to use the authorised capital by 9 May 2011. Of the authorised capital of € 215.6 million, created by a resolution of the Annual General Meeting of 18 May 2004, an amount of € 182.8 million was used for the issue of 71,502,616 shares against cash contribution in the 2005 financial year. The authorised capital remaining at the end of 2005 of € 32.8 million was cancelled.

Including the remaining authorised capital for the issuance of employee shares, total unused authorised capital amounted to € 317.3 million.

(30) Capital reserves

The capital reserves mainly comprised transfers of premiums from the issue of shares and amounts generated by issuing bonds for conversion options and warrants to purchase shares in TUI AG where the conversion options and warrants had to be classified as equity instruments in accordance with IAS 32. Premiums from the issue of shares due to the exercise of conversion options and warrants were also transferred to the capital reserves. The funding costs for the issue of conversion options and warrants and for the capital increase by means of the issue of new shares against cash contribution were eliminated against the transfers to the capital reserves resulting from these transactions.

In accordance with the revised IAS 32 in combination with IAS 39, the conversion right of the convertible bond issued in October 2003 had to be classified as a derivative liability. Since on 3 April 2006 TUI AG irrevocably waived its right to be able to deliver cash in the event of a conversion, the conversion option had to be classified as an equity instrument. As a result, the capital reserves rose by € 7.2 million. In the financial year under review, the capital reserves rose by € 4.1 million (previous year: € 6.6 million) due to the issuance of employee shares. In 2005, the capital reserves had risen by € 812.1 million due to the issue of new shares against cash contribution.

(31) Revenue reserves

Other revenue reserves comprised transfers from the results of the current or previous financial years as well as eliminations of goodwill from capital consolidation and at equity measurement of subsidiaries purchased until 30 September 1995.

Furthermore, adjustments with no effect on results from the first time application of new or revised accounting standards and effects of changes in accounting and measurement methods were transferred to or eliminated against other revenue reserves.

In accordance with section 58 subsection 2 of the German Stock Corporation Act, dividend payments to TUI AG shareholders were based on net profit available for distribution of the commercial-law financial statements of TUI AG. A proposal will be submitted to the Annual General Meeting by the Executive and the Supervisory Board to carry the profit of € 54.3 million available for distribution forward on new account.

In the 2006 financial year, the option writer position from an option on minority interests resulted in a reduction in other revenue reserves outside profit and loss of € 45.1 million.

Differences arising from currency translation comprised differences from the currency translation of the financial statements of foreign subsidiaries as well as differences from the translation of goodwill denominated in a foreign currency.

The revaluation reserve was formed in the framework of step acquisitions of companies. At the date of first time consolidation, the changes in the fair values of the assets and liabilities of the acquired company arising in between the individual acquisition dates were recognised in the revaluation reserve with no effect on results based on the interest held prior to first time consolidation. In the framework of deconsolidation, the revaluation reserves were eliminated against other revenue reserves.

The revaluation reserve for financial assets comprised the portion of gains and losses from hedges which was determined as an effective hedge of future cash flows. The revaluation reserve for financial assets was released with an effect on results in the same period in which the hedged transaction had an effect on results or was no longer assessed as probable.

The reserve according to IAS 19 comprised profits and losses from changes in actuarial parameters in connection with the measurement of pension obligations and the associated fund assets, recognised with no effect on results.

In the 2006 financial year, the increase in the long-term interest rate level in the UK was the main reason for a reduction in pension obligations and the related increase in the reserve according to IAS 19. The reserve stood at € -374.4 million (previous year: € -510.3 million) at the end of the financial year under review.

(32) Hybrid capital

In accordance with IAS 32, the subordinated hybrid capital issued by TUI AG in December 2005 with a nominal volume of € 300.0 million represented Group equity. The capital procurement costs of € 8.5 million were deducted from the hybrid capital with no effect on results, taking account of deferred income taxes. Dividend

entitlements of hybrid capital investors were deferred as other financial liabilities until the payment date.

(33) Minority interests

Minority interests mainly related to companies of the tourism division, in particular the RIU Group and a number of incoming agencies.

(34) Pension provisions and similar obligations

A number of pension schemes based on defined contribution plans or defined benefit plans were provided for Group employees. Pension obligations varied according to the legal, fiscal and economic circumstances of the country concerned and usually depended on employees' length of service and pay levels. While all defined contribution plans were funded by means of the payment of premiums to external insurance companies or funds, systems existed for defined benefit plans entailing the formation of provisions within the Company or investments in funds outside the Company.

German employees enjoyed benefits from a statutory defined contribution plan paying pensions as a function of employees' income and the contributions paid in. Several other industry pension organisations existed for companies of the TUI Group. Once the contributions to the state and private pension insurance institutions had been paid, the Company had no further obligations. Current contribution payments were recognised as an expense for the respective period. In the 2006 financial year, the pension costs for all defined contribution plans for the TUI Group totalled € 77.9 million (previous year: € 83.2 million). The pension costs for defined benefit pension commitments totalled € 80.3 million (previous year: € 90.0 million).

Pension costs for defined benefit obligations

€ million	2006	2005
Current service cost for employee service in the financial year	62.4	54.6
Interest cost	118.9	105.5
Expected return on external plan assets	86.5	74.3
Past service cost due to plan changes	- 12.7	4.7
Effects of curtailment or settlement of pension obligations	- 1.8	- 0.5
Total	80.3	90.0

The increase in the current service cost for employee service in the financial year, interest cost and expected return on external plan assets in the 2006 financial year mainly resulted from changes in the TUI Northern Europe sector. While the change in the applicable mortality tables in Thomsonfly UK in the 2005 financial year was the main reason for an increase in the current service cost, the increase in the interest cost in the 2006 financial year resulted primarily from the considerable year-on-year increase in the opening balance of the pension obligations in the TUI Northern Europe sector. The increase in the expected return on external plan assets resulted from a year-on-year increase in the market value of fund assets.

An amendment of a British law which entered into force in April 2006 allows British pensioners to have substantially larger parts of their pension paid out as a tax-free lump sum than before. The Group's pension schemes in the UK were adjusted accordingly. These improvements indeed resulted in an increase in amounts paid out and a reduction in the corresponding pension obligations. The effects of the increase in the payout ratio before the amendment of the law were carried as an actuarial gain (€ 15.2 million) outside profit or loss. The increase in the assumption on future payout ratios caused by the amendment and the associated reduction in pension

obligations were immediately recognised with an effect on results (€ 13.2 million) as 'past service cost' for vested entitlements. The income from past service cost shown under pension costs was mainly attributable to this development.

Provisions for pension obligations were established for benefits payable in the form of retirement, invalidity and surviving dependants' benefits. Provisions were exclusively formed for defined benefit schemes under which the Company guarantees employees a specific pension level. Provisions for similar obligations covered in particular early retirement and temporary assistance benefits.

Development of provisions for pensions and similar obligations

€ million	Balance as at 31 Dec 2005	Changes in consolidation ¹⁾	Changes with no effect on results	Utilisation	Reversal	Addition	Balance as at 31 Dec 2006
Provisions for pensions	1,285.5	- 7.1	- 186.3	44.4	13.7	44.8	1,078.8
Similar obligations	8.1	0.1	–	2.0	–	0.1	6.3
Total	1,293.6	- 7.0	- 186.3	46.4	13.7	44.9	1,085.1

¹⁾ as well as transfers and exchange differences

The actuarial gains and losses arisen in the 2006 financial year were eliminated against equity with no effect on results, causing the indicated change in pension provisions with no effect on results.

Where the defined benefit pension obligations were not financed by provisions, they were funded externally. This type of funding of pension obligations prevailed to a considerable extent in the Northern Europe sector in TUI UK and Thomsonfly UK. Furthermore, funded pension obligation systems were operated by foreign container shipping companies and by companies in Switzerland and in the Netherlands.

While the fund assets were determined on the basis of the fair values of invested funds as at 31 December 2006, pension obligations were measured on the basis of actuarial calculations and assumptions. The obligations under defined benefit plans were calculated on the basis of the internationally accepted projected unit credit method, taking account of expected future increases in salaries and pensions.

Actuarial parameters for German companies

Percentage p.a.	2006	2005
Discount rate	4.5	4.25
Projected future salary increases	2.0 – 2.5	1.5 – 2.0
Projected future pension increases	1.5 – 1.83	1.0 – 1.5
Projected employee turnover rate	2.0	2.0

Actuarial calculations for companies abroad were based on specific parameters for each country concerned.

Actuarial assumptions for foreign companies

Percentage p.a.	2006			2005		
	Discount rate	Projected return on plan assets	Projected future salary increases	Discount rate	Projected return on plan assets	Projected future salary increases
Eurozone	4.5	4.25 – 6.0	0.0 – 4.5	4.25	5.0 – 6.0	0.0 – 4.4
UK	5.0 – 5.2	4.55 – 7.4	3.4 – 4.6	4.75 – 4.8	4.5 – 7.47	3.8 – 4.5
Rest of Europe	3.25	4.0	1.5 – 2.0	3.25 – 3.75	2.5 – 4.0	0.2 – 2.5
North America	4.75 – 5.75	5.0 – 6.0	3.5 – 5.0	5.0 – 6.0	6.0	5.0
South America	9.0	9.0	5.0	9.0	9.0	5.0
Asia	2.3 – 3.75	1.5 – 2.75	1.5 – 3.0	2.0 – 3.75	1.5 – 2.75	1.5 – 3.0

Development of the net present value of actual pension obligations

€ million	2006	2005
Net present value of actual pension obligations at beginning of year	2,503.9	2,003.8
First time application of IFRS 5	–	- 55.7
Additions to consolidation	24.3	58.9
Disposals from consolidation	31.6	4.7
Current pension obligations	62.4	54.6
Interest cost	118.9	105.5
Pensions paid	- 105.5	- 68.6
Contributions paid by pension beneficiaries	11.6	12.5
Actuarial gains (-) and losses (+)	- 148.3	403.3
Past service benefits	- 10.9	5.0
Exchange differences	35.4	36.3
Other	10.0	- 47.0
Net present value of actual pension obligations at year-end	2,470.2	2,503.9

In many companies, the development of the actuarial gains and losses was mainly determined by a higher discount rate applicable in accordance with the IFRS rules in the completed financial year. In 2005, in contrast, lower interest rates had to be applied for a large number of obligations compared with the 2004 financial year. The development of the actuarial loss in 2005 was also strongly driven by the application of new mortality tables in Thomsonfly UK.

While the disposal of business travel activities was carried under 'Other changes' in 2005, no such disposals were recorded in the current financial year. The increase in pension obligations carried in 'Other' changes mainly resulted from the arrangements in the framework of the sales negotiations concerning the Dutch business travel operations, which have meanwhile been removed from consolidation. In line with the agreement, the TUI Group assumed the relevant obligations to the beneficiaries who already obtained benefits at the date of the divestment.

The exchange differences shown for the 2006 financial year mainly resulted from the translation of British pounds sterling into euros.

Development of the fair value of fund assets

€ million	2006	2005
Fair value of fund assets at beginning of year	1,218.5	972.5
First time application of IFRS 5	-	- 9.7
Additions to consolidation	-	39.0
Disposals from consolidation	-	-
Expected return on external plan assets (-)	- 86.5	- 74.3
Actuarial gains (-) / losses (+) of the current year	- 38.0	- 109.9
Exchange differences	23.1	23.2
Employer's contributions paid in	74.8	60.9
Contributions paid by the beneficiary of the plan	11.6	12.5
Pensions paid	- 70.0	- 35.7
Other	15.9	- 28.4
Fair value of fund assets at year-end	1,398.4	1,218.5
of which dividend-carrying securities	944.9	953.3
of which bonds	323.5	207.9
of which property, plant and equipment	1.1	-
of which cash	75.0	16.6
of which other	53.9	40.7

As in 2005, the development of the actuarial gains showed that the pension funds were invested in recovering capital markets. Given an expected return of € 86.5 million (previous year: € 74.3 million), the funds generated an actual return of € 124.5 million (previous year: € 184.2 million). The year-on-year increase in pension payments was primarily attributable to the amendment of the British law already outlined in the explanations on the defined benefit pension costs. While the disposal of the business travel operations was carried under 'Other' changes in 2005, no corresponding disposals were recorded in the financial year under review. The increase in pension obligations carried in 'Other' changes mainly resulted from the arrangements in the framework of the sales negotiations concerning the Dutch business travel operations, which have meanwhile been removed from consolidation. In line with the agreement, the TUI Group assumed the relevant obligations to the beneficiaries who already obtained benefits at the date of the divestment and took over the corresponding fund assets.

The assumptions used in determining the expected return on external fund assets were based on the actual fund structure and were oriented to the future long-term returns for the individual fund categories. Further factors taken into account were the current interest level and the inflation trend. The TUI Group's calculation of the pension costs was based on conservative forecasts in determining the expected return on the fund assets. This was reflected by the fact that both in 2005 but in the financial year under review the funds in particular not just generated the expected returns but managed to generate amounts on top of these returns.

The companies of the TUI Group are expected to contribute around € 62.3 million to pension funds in the 2007 financial year.

Reconciliation of the present value of pension obligations to pension liability recognised in the balance sheet

€ million	31 Dec 2006			31 Dec 2005		
	Plans with obligation in excess of assets	Plans with assets in excess of obligations	Total	Plans with obligation in excess of assets	Plans with assets in excess of obligations	Total
Actual present value of fully or partly funded pension obligations	1,809.9	123.9	1,933.8	1,953.0	8.1	1,961.1
Fair value of external plan assets	1,265.7	132.7	1,398.4	1,210.3	8.2	1,218.5
Deficit respectively surplus	544.2	- 8.8	535.4	742.7	- 0.1	742.6
Actual present value of non-funded pension obligations			536.4			542.8
Net present value of pension obligations			1,071.8			1,285.4
Adjustment for past service cost			- 1.8			-
Net recognised liability			1,070.0			1,285.4
of which provisions for pensions for non-funded obligations			534.6			542.8
of which provisions for pensionf for funded obligations			544.2			742.7
of which capitalised assets			- 8.8			- 0.1

Since the TUI Group used the option of immediately offsetting the actuarial gains and losses against equity in the year in which they arose, the TUI Group's total pension obligations were fully shown in the balance sheet, netted against existing fund assets. There was only an adjustment of € 1.8 million due to past service cost that was not yet recognised in the balance sheet. The off-balance adjustment will be charged to expenses and successively amortised in the next financial years.

Where plan assets exceeded obligations with regard to funded pension obligations, taking account of an adjustment due to past service cost, and where at the same time there was an entitlement to reimbursement or reduction of future contribution payments to the fund, the excess was capitalised in conformity with the upper limit defined by IAS 19.

On the basis of a year-on-year comparison, the key amounts related to pension obligations were as follows:

€ million	2006	2005	2004
Net present value of pension obligations at year-end	2,470.2	2,503.9	2,003.8
Fund assets at year-end	1,398.4	1,218.5	972.5
Surplus respectively deficit at year-end	535.4	742.6	478.7
Actuarial gains (-) / losses (+) of the current year from the obligations	- 148.3	403.3	51.8
Actuarial gains (-) / losses (+) of the current year from the fund assets	- 38.0	- 109.9	- 23.6

As at 31 December 2006, the actuarial gains and losses before deferred income taxes recorded by then and eliminated against equity with no effect on results totalled € - 540.2 million (previous year: € - 735.5 million).

(35) Income tax provisions and other provisions

Development of provisions in the 2006 financial year

€ million	Balance as at 31 Dec 2005	Changes in consolidation ¹⁾	Utilisation	Reversal	Addition	Balance as at 31 Dec 2006
Provisions for current income tax	215.2	3.6	22.1	1.5	69.6	264.8
Provisions for deferred tax	144.4	- 98.7	–	–	14.4	60.1
Income tax provisions	359.6	- 95.1	22.1	1.5	84.0	324.9
Personnel costs	286.4	- 15.0	150.4	18.7	206.4	308.7
Typical operating risks	145.3	28.9	32.9	6.9	36.7	171.1
Risks from pending transactions	49.4	–	8.0	8.5	21.6	54.5
Guarantee and liability risks	89.8	- 19.7	8.7	9.4	38.8	90.8
Provisions for other taxes	66.0	- 2.0	16.5	1.8	2.8	48.5
Miscellaneous provisions	366.0	- 21.7	113.9	37.9	145.3	337.8
Other provisions	1,002.9	- 29.5	330.4	83.2	451.6	1,011.4
Total	1,362.5	- 124.6	352.5	84.7	535.6	1,336.3

¹⁾ as well as transfers and exchange differences

Income tax provisions

Income tax provisions comprised provisions for current and deferred income taxes, outlined in note 12. The net change in deferred tax provisions between the balance sheet dates was fully shown as an addition in the above table.

Other provisions

Other provisions comprised provisions for personnel costs, typical operating risks, risks from pending transactions, guarantee and liability risks, provisions for other taxes and miscellaneous provisions.

Provisions for personnel costs comprised provisions for vacation, unpaid bonus payments, severance compensation and jubilee benefits.

In addition, the provisions for personnel costs also comprised provisions for share-based payment schemes with cash compensation according to IFRS 2.

In the framework of a long-term incentive programme, the Executive Board members and other key management in the Group were granted bonuses which 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 taxes and amortisation of goodwill (EBTA). The translation into phantom shares was based on the average stock price of the TUI share on the 20 trading days following the Supervisory Board meeting at which the annual financial statements were approved. The number of phantom stocks granted in a financial year is therefore only determined in the subsequent year. Following a lock-up period of two years, the right to cash payment from this bonus within predetermined timeframes can be exercised individually. The lock-up period did not apply to members leaving the Group. The payment level depended on the average stock price of the TUI share over a period of 20 trading days after the exercise date. There were no absolute or relative return or stock price targets. A cap was agreed for exceptional, unforeseen developments. Since the strike price was € 0 and the incentive programme did not entail a vesting period, the fair value corresponded to the intrinsic value and hence the market price at the balance sheet date. Accordingly, the fair value of the obligation was determined by multiplying the number of phantom shares with the stock price at the respective reporting date.

Development of phantom shares

	Number	Present value in € million
31 Dec 2004	683,555	11.1
Phantom shares granted	209,224	3.8
Phantom shares exercised	182,772	- 3.6
Measurement results		1.0
31 Dec 2005	710,007	12.3
Phantom shares granted	239,638	4.4
Phantom shares exercised	185,116	- 2.9
Measurement results		- 2.2
31 Dec 2006	764,529	11.6

In the Northern Europe sector, there were different share-based payment schemes with cash compensation in conformity with IFRS 2, each with a term to maturity of three years. Senior executive staff are granted a contractually agreed maximum number of phantom shares under these compensation schemes. The number of phantom shares actually granted at the end of the term of the respective compensation scheme depends on the extent of target achievement with regard to pre-determined indicators and, depending on the actual design of the compensation scheme, to some extent on the relative price share development of TUI AG compared with DAX 30. If an employee leaves the Company before the end of the compensation scheme, these phantom shares may expire. For each individual year, the number of phantom shares granted is measured on the basis of target achievement with regard to the pre-defined parameters, and to some extent on the basis of the relative share price development of TUI AG compared with other DAX 30 members. Where future periods are involved, corresponding estimates are made. The fair value was determined on the basis of the parameters mentioned above by means of Monte Carlo methods as at the balance sheet date. Deductions were made in order to account for expected employee turnover. The level of the provision for the compensation schemes formed as at the respective balance sheet date was based on the degree of target achievement, taking account of pro rata temporis accumulation over the vesting period.

	Number	Pro rata temporis present value in € million
31 Dec 2004	1,314,212	6.4
Phantom shares granted	371,403	1.7
Phantom shares exercised	273,351	- 1.8
Phantom shares expired	131,876	- 2.5
Measurement results		4.8
31 Dec 2005	1,280,388	8.6
Phantom shares granted	423,988	0.6
Phantom shares exercised	489,475	- 2.7
Phantom shares expired	89,054	- 1.8
Measurement results		0.5
31 Dec 2006	1,125,847	5.2

In order to reduce production costs in tourism, the Group's Executive Board adopted a cost-cutting containment programme aimed at reducing tourism costs by € 250 million by 2008. The cost-cutting programme comprises savings of € 100 million in terms of personnel costs and € 150 million in terms of related cost of materials. Where the individual measures were sufficiently specific and a factual obligation for

restructuring existed, corresponding provisions were formed. These were primarily provisions for personnel costs related to planned personnel reductions and other provisions due to the early termination of rental and lease agreements. Personnel measures focused on source markets Germany and France, but in particular on source market UK. These restructuring measures resulted in total expenses of € 100.6 million in the tourism division in the 2006 financial year. At the end of the financial year, total provisions amounted to € 95.8 million. The provisions formed for personnel measures will probably be utilised in 2007.

Due to the acquisition of the CP Ships Group in 2005, restructuring measures were initiated and partly implemented in the shipping division in the completed financial year. Like those launched in the tourism division, these measures also comprised personnel reductions and the related early termination of rental and leasing contracts for office facilities. Total restructuring costs of € 66.4 million arose in the financial year under review. The provisions of € 34.8 million at the end of the completed financial year will probably almost fully be utilised in the 2007 financial year.

Provisions for typical operating risks of € 171.1 million comprised provisions for maintenance operations for leased aircraft of € 114.5 million and provisions for stabilising and restoration measures for the former mining activities (approx. € 38.0 million). These provisions included an amount of € 30.5 million (previous year: € 31.5 million) for necessary environmental protection measures.

The provision for risks from onerous contracts was primarily formed for hotel and flight capacity already contracted but not expected to be fully utilised.

The provision formed in previous years due to the insolvency of Babcock Borsig AG for risks from the anticipated avilment of guarantees and warranties granted in previous years for the former plant engineering activities was partly utilised and reduced accordingly in the year under review. In addition, provisions for guarantee, warranty and liability risks in the shipping division mainly comprised maintenance obligations in connection with leased containers and obligations to pay for uninsured damage to cargo.

Other provisions comprised provisions formed in connection with the settlement of selling agreements in the framework of the completed restructuring of the Group. Total provisions of € 75 million were made. They related to divestment transactions from the former energy, trading and special logistics sectors. In addition, preliminary measures were taken for the settlement of purchase contracts in the real estate and IT services areas.

Where the difference between the present value and the settlement value of a provision was material for the measurement of a non-current provision as at the balance sheet date, the provision had to be recognised at its present value in accordance with IAS 37. The discount rate to be applied should take account of the specific risks of the provision and of future price increases. This criterion applied to some items contained in the TUI Group's other provisions. Transfers to other provisions comprised an interest portion of € 4.2 million (previous year: € 2.2 million), recognised as interest costs. The largest portion related to transfers to provisions for typical operating risks.

Terms to maturity of income tax provisions and other provisions

€ million	31 Dec 2006		31 Dec 2005	
	Remaining term of more than 1 year	Total	Total	Remaining term of more than 1 year
Provisions for current taxes on income	177.0	264.8	215.2	195.4
Provisions for deferred taxes	49.5	60.1	144.4	108.2
Income tax provisions	226.5	324.9	359.6	303.6
Personnel costs	96.2	308.7	286.4	82.3
Typical operating risks	105.6	171.1	145.3	99.6
Risks from pending transactions	18.4	54.5	49.4	23.7
Guarantee and liability risks	52.4	90.8	89.8	55.2
Provisions for other taxes	19.8	48.5	66.0	16.4
Miscellaneous provisions	143.1	337.8	366.0	124.7
Other provisions	435.5	1,011.4	1,002.9	401.9
Total	662.0	1,336.3	1,362.5	705.5

Provisions for deferred taxes had to be carried as non-current provisions in the balance sheet, irrespective of the expected realisation date.

(36) Financial liabilities

Financial liabilities

€ million	31 Dec 2006				31 Dec 2005	
	up to 1 year	more than 1-5 years	more than 5 years	Remaining terms Total	Total	Remaining term of more than 1 year
Convertible bonds	–	362.1	–	362.1	352.5	351.6
Other bonds	–	1,549.7	441.4	1,991.1	2,733.3	1,983.8
Liabilities to banks	251.3	659.3	131.8	1,042.4	799.1	505.3
Liabilities from finance leases	28.1	228.7	34.3	291.1	394.4	351.9
Financial liabilities due to non-consolidated Group companies	33.7	2.1	–	35.8	26.0	2.0
Financial liabilities due to affiliates	6.3	–	–	6.3	6.4	–
Other financial liabilities	102.6	47.1	21.1	170.8	46.5	19.3
Total	422.2	2,849.0	628.6	3,899.6	4,358.2	3,213.9

Convertible bonds only comprised the convertible bond of € 384.6 million issued by TUI AG in November 2003. The bond, maturing on 1 December 2008, entailed an interest coupon of 4.0% p.a. Each convertible bond of a par value of € 50,000.00 entitles the holder to convert it into 2,520 shares at a conversion price of around € 19.84 per share any time between 2 January 2004 and 17 November 2008.

The debt component of the convertible bond was carried at the issue date at its present value based on an interest rate in line with market conditions and was increased by the interest portion of the period as at the balance sheet date in accordance with the internationally accepted effective interest method.

Other bonds comprised bonds with a total nominal volume of € 2,025.0 million.

The bearer bond with a nominal volume of € 750.0 million, issued in October 1999 by TUI AG, was redeemed on schedule in October 2006 when due. It was a fixed-interest instrument with a coupon of 5.875%. The bearer bond had a denomination of € 1,000.00.

In the 2004 financial year, two bonds totalling € 1,025.0 million were issued in the framework of the long-term refinancing of the Group. The bond with a nominal volume of € 625.0 million, issued in May 2004 and maturing in May 2011, carried a nominal fixed-interest coupon of 6.625%. The bond with a nominal volume of € 400.0 million issued in June 2004 entailed a floating interest rate (EURIBOR + 2.10%). This instrument will mature in August 2009. Both bonds had denominations of € 1,000.00.

In order to finance the acquisition of CP Ships, two further bonds with an aggregate volume of € 1,000.0 million were issued by TUI AG in December 2005. The fixed-interest bond of € 450.0 million, carrying a nominal interest rate of 5.125%, will mature in December 2012. The remaining bond volume of € 550.0 million was a floating-rate bond (3-month-EURIBOR + 1.55%) maturing in December 2010. The bonds, issued in the 2005 financial year, had denominations of € 50,000.00 (thereafter multiples of thousands).

Liabilities to banks broke down as follows:

Liabilities to banks

€ million	Weighted average interest rate p.a.	31 Dec 2006				31 Dec 2005	
		Total	up to 1 year	Remaining terms more than 1-5 year	Remaining terms more than 5 years	Total	Remaining term more than 1 year
2006	–	–	–	–	–	81.1	–
2007	4.94%	56.3	56.3	–	–	0.5	0.4
2008	4.75%	3.3	2.2	1.1	–	6.7	4.1
2009	5.33%	183.0	–	183.0	–	5.6	4.3
2010	4.78%	105.0	–	105.0	–	51.2	51.0
2011	5.17%	12.3	2.5	9.8	–	10.7	10.3
2012	–	–	–	–	–	0.8	0.8
2013	5.32%	100.6	4.8	21.9	73.9	117.4	112.9
2014	5.09%	28.3	3.9	6.1	18.3	–	–
After 2016	4.53%	51.5	3.8	16.8	30.9	58.6	55.1
	Total fixed-interest	540.3	73.5	343.7	123.1	332.6	238.9
2006	EURIBOR	–	–	–	–	46.5	–
2007	EURIBOR	51.1	51.1	–	–	8.1	4.3
2007	LIBOR	19.1	19.1	–	–	–	–
2008	EURIBOR	63.0	11.0	52.0	–	45.7	32.4
2008	LIBOR	12.9	5.7	7.2	–	20.8	14.4
2009	EURIBOR	3.2	1.4	1.8	–	46.0	46.0
2010	EURIBOR	180.8	2.0	178.8	–	1.3	1.0
2010	LIBOR	–	–	–	–	0.5	0.4
2011	EURIBOR	23.6	10.2	13.4	–	15.1	13.5
2011	LIBOR	57.9	11.1	46.8	–	26.7	22.3
2012	EURIBOR	–	–	–	–	1.7	1.1
2012	LIBOR	15.0	2.6	10.4	2.0	94.9	85.3
2013	EURIBOR	–	–	–	–	1.5	1.5
After 2016	EURIBOR	12.8	0.9	5.2	6.7	44.9	42.2
After 2016	LIBOR	–	–	–	–	2.0	1.9
	Total floating-interest	439.4	115.1	315.6	8.7	355.7	266.3
	Total other	62.7	62.7	–	–	110.8	0.1
	Total	1,042.4	251.3	659.3	131.8	799.1	505.3

At € 560.8 million, the fair values of the main fixed-interest liabilities to banks exceeded the carrying amounts of € 540.3 million by € 20.5 million. For floating-interest liabilities, the carrying amounts corresponded to the fair values.

In the 2006 financial year, the Group renewed many of its bilateral short-term credit lines. In October 2006, TUI AG exercised the first of two extension options for the syndicated credit line of € 1.75 billion of December 2005, extending its maturity until 2009. At the beginning of 2007, TUI AG reduced the syndicated credit line which had not been used as at the balance sheet date to € 1.0 billion. These credit lines were almost exclusively based on floating-interest rates based on EURIBOR. In addition, € 400 million were raised through private placements with maturities of around three years in the framework of general corporate financing. Of the amount raised through the private placements, € 162 million were based on a floating-interest rate based on EURIBOR, with € 238 million based on a fixed-interest agreement.

The total of other liabilities mainly comprised liabilities from current accounts and liabilities which neither an interest rate nor a maturity date could be unambiguously allocated to.

Liabilities from finance leases were recognised without taking account of future interest costs.

Liabilities secured by mortgages, assignment as security or similar rights

€ million	31 Dec 2006	31 Dec 2005
To banks	49.5	137.2
To non-banks	3.9	3.9
Total	53.4	141.1

Secured liabilities related to non-current liabilities totalling € 41.1 million (previous year: € 126.8 million).

(37) Trade accounts payable

Trade accounts payable

€ million	31 Dec 2006	31 Dec 2005
To third parties	1,935.1	2,051.0
To non-consolidated Group companies	10.2	11.8
To affiliates	13.1	15.9
Total	1,958.4	2,078.7

(38) Derivative financial instruments

Derivative financial instruments

€ million	31 Dec 2006			Total	31 Dec 2005	
	up to 1 year	Remaining terms more than 1-5 years	Remaining terms more than 5 years		Total	Remaining term more than 1 year
Liabilities from derivative financial instruments	116.2	26.5	0.5	143.2	73.1	32.1

Derivative financial instruments, mainly serving to hedge the future operative business, are outlined in detail in the explanations on financial instruments.

(39) Other liabilities

Other liabilities

€ million	31 Dec 2006			31 Dec 2005		
	up to 1 year	Remaining terms more than 1-5 years	more than 5 years	Total	Total	Remaining term more than 1 year
Other liabilities due to non-consolidated Group companies	5.6	–	–	5.6	18.5	–
Other liabilities due to affiliates	4.3	–	–	4.3	5.6	–
Other liabilities from income taxes	4.0	–	–	4.0	0.9	–
Other liabilities relating to other taxes	38.0	–	–	38.0	32.2	0.1
Other liabilities relating to social security	42.9	0.1	–	43.0	50.2	0.2
Other liabilities relating to employees	21.1	0.1	–	21.2	21.2	0.2
Other liabilities relating to members of the Boards	3.9	–	–	3.9	3.2	–
Other miscellaneous liabilities	148.9	15.7	–	164.6	172.1	25.7
Advance payments received	1,262.2	0.4	–	1,262.6	1,209.2	0.4
Other liabilities	1,530.9	16.3	–	1,547.2	1,513.1	26.6
Deferred income	19.8	9.9	2.1	31.8	39.9	12.8
Total	1,550.7	26.2	2.1	1,579.0	1,553.0	39.4

Deferred income included government grants paid to promote investments and not directly allocable to individual asset items (investment grants) of € 0.4 million (previous year: € 0.4 million).

(40) Liabilities relating to
assets held for sale

Liabilities relating to assets held for sale

€ million	31 Dec 2006	31 Dec 2005
Trading	–	171.7
TQ3 Group	–	114.4
Other liabilities	2.1	2.4
Total	2.1	288.5

This balance sheet item comprised liabilities and provisions of discontinuing operations and other disposal groups. In addition, it comprised liabilities related to assets held for sale. In 2005, liabilities of € 55.9 million representing financial liabilities of the Group were recognised in this balance sheet item. A breakdown of liabilities and provisions of discontinuing operations is shown in note 13.

TQ3 Group

€ million	31 Dec 2005
Current provisions	12.0
Non-current provisions	18.1
Current financial liabilities	2.5
Non-current financial liabilities	3.7
Current other liabilities	77.2
Non-current other liabilities	0.9

(41) Contingent liabilities

Contingent liabilities

€ million	31 Dec 2006	31 Dec 2005
Liabilities under guarantees, bill and cheque guarantees due to non-consolidated Group companies	15.8	19.0
Other liabilities under guarantees, bill and cheque guarantees	196.1	266.2
Other liabilities under warranties	1.6	15.2
Contingent liabilities related to the provision of collateral for third-party liabilities	0.1	5.2
Total	213.6	305.6

Contingent liabilities were carried at the level of estimated completion amount as at the balance sheet date.

Liabilities under warranties were all contractual liabilities to third parties not to be classified as guarantees and going beyond the typical scope of the business and the industry.

In connection with the insolvency of Babcock Borsig AG, provisions were formed in previous years to fully cover the guarantees and warranties related to activities in the former plant engineering and ship building sectors which were likely to be called in. All remaining guarantees and warranties from former plant engineering and ship-building activities served the settlement of ongoing business transactions and were shown at their respective amounts at the balance sheet date. The reduction in guarantees and warranties led to a reduction in the relevant amount in the year under review.

TUI Group companies were jointly and severally liable for participations in civil-law partnerships for which profit and loss transfer agreements with subsidiaries existed, for participations in joint ventures and participations in partnerships as general partner.

(42) Litigation

Neither TUI AG nor any of its subsidiaries were involved in pending or foreseeable court or arbitration proceedings which might have a significant impact on its economic position or had such an impact in the past two years, nor were any such proceedings foreseeable. This also applied to actions claiming warranty, repayment or any other compensation brought forward in connection with the divestment of subsidiaries and sectors implemented over the past few years. The provision formed for the financial charge from the declaratory action submitted by the insolvency trustee of Babcock Borsig AG (in insolvency) at the district court of Duisburg in 2004 and meanwhile pending at the regional court of Frankfurt/Main only amounted to the level of the anticipated non-refundable cost of proceedings since the action was expected to be dismissed.

In 1999, the operator of the container terminal in Zeebrugge in Belgium brought an action for damages against CP Ships Ltd. and several of its subsidiaries due to an alleged breach of agreement in connection with the change of the Belgian port of call from Zeebrugge to Antwerp. Furthermore, seven shareholder class actions were brought against CP Ships in the US and a further three in Canada due to alleged irregularities in the reporting by the CP Ships Group in connection with the adjustments of the financial statements in 2004, resulting in particular in the reduction in profits for the first quarter of 2004 and for the preceding years 2002 and 2003. Based on the findings and assessments currently available, the prerequisites for the recognition of obligations are not met in either of the two pending cases. In the framework of the purchase price allocation as at 25 October 2005, these two actions were carried and recognised as contingent liabilities of USD 58.8 million. Offsetting refund claims under insurance policies and other agreements were not recognised since they were not assessed as highly probable.

As in previous years, the respective Group companies had formed provisions or expected adequate insurance benefits to cover any potential financial charges from other court or arbitration proceedings. Overall, the future financial position is therefore unlikely to be substantially affected by such charges.

(43) Other financial commitments

Nominal values of other financial commitments

€ million	31 Dec 2006			31 Dec 2005		
	up to 1 year	Remaining terms more than 1-5 years	Remaining terms more than 5-10 years	Total	Total	Remaining term more than 1 year
Order commitments in respect of capital expenditure	700.2	1,889.5	550.2	3,139.9	1,069.8	801.6
Order commitments in respect of tourism services	808.6	1,035.8	408.8	2,253.2	3,001.5	2,078.9
Accommodation services	341.2	656.8	318.0	1,316.0	1,633.2	1,231.1
Flight services	454.2	379.0	90.8	924.0	1,357.6	847.8
Other services	13.2	–	–	13.2	10.7	–
Other financial commitments	225.6	474.2	13.9	713.7	155.0	36.2
Total	1,734.4	3,399.5	972.9	6,106.8	4,226.3	2,916.7
Fair value	1,659.7	2,979.0	684.1	5,322.8	3,707.3	2,451.1

The fair value of other financial commitments was determined by means of discounting future expenses on the basis of a comparable market interest rate of 4.5% p.a. (previous year: 4.25%). If the previous year's interest rate of 4.25% p.a. had been used as the discount rate, the fair value would have been € 38.8 million higher.

In 2005, the trading sector – a discontinuing operation – comprised commitments of € 57.7 million at a fair value of € 55.3 million.

The increase of € 2,070.1 million in nominal order commitments in respect of capital expenditure was mainly attributable to the planned acquisition of new aircraft to replace parts of the currently operated fleet.

Order commitments in respect of tourism services related to contractual commitments to purchase accommodation and transport services from non-Group suppliers and associated companies as well as joint ventures.

The reduction in order commitments for accommodation services mainly related to the tour operators of source market Northern Europe. The decline in order commitments in respect of flight services primarily resulted from the use of the flight services purchased in 2005 by TUI Deutschland GmbH.

Other financial commitments mainly comprised amounts for commitments from orders already placed, land clean-up and renovation obligations, payment obligations and liabilities in connection with shareholdings. They also included other financial commitments from contractual agreements to purchase shares. The increase in other financial commitments primarily resulted from commitments to purchase IT services from TUI InfoTec GmbH.

Financial commitments from operating lease, rental and charter contracts

€ million	31 Dec 2006				31 Dec 2005	
	up to 1 year	more than 1-5 years	more than 5-10 years	Remaining terms more than 10 years	Total	Remaining term more than 1 year
Hotel complexes	91.9	290.7	49.7	1.3	433.6	324.7
Travel agencies	71.7	201.4	101.9	43.5	418.5	337.1
Administrative buildings	56.5	174.4	92.5	27.5	350.9	386.8
Aircraft	246.3	567.4	68.7	–	882.4	400.9
Ships and container	663.0	1,027.5	416.2	112.5	2,219.2	1,391.3
Other	59.0	59.8	27.0	8.0	153.8	190.9
Total	1,188.4	2,321.2	756.0	192.9	4,458.5	3,031.7
Fair value	1,137.2	2,034.1	531.6	124.2	3,827.1	2,527.3

The fair value of financial commitments from lease, rental and charter contracts was determined by means of discounting future expenses on the basis of an interest rate of 4.5% p.a., which was in conformity with the market rate. If the previous year's interest rate of 4.25% p.a. had been used as the discount rate, the fair value would have been € 30.7 million higher.

The trading sector, a discontinuing operation, comprised commitments of € 15.1 million at a fair value of € 12.8 million in the 2005 financial year.

The commitments from lease, rental and leasing contracts exclusively related to leases that did not transfer all the risks and rewards incident to ownership of the assets to the companies of the TUI Group in accordance with IASB rules (operating leases). The test carried out to check whether the risks and rewards incident to ownership had passed to the TUI Group was effected in particular in consideration of existing options to purchase the assets or extend the terms of the contracts.

On a regular basis, operating leases for aircraft did not contain a purchase option nor an extension option at the end of the basic term. Current lease payments also comprised maintenance costs to a minor extent. The basic term regularly covered a period of between two and eight years.

Due to the acquisition of the business of CP Ships, leases with different terms and conditions existed for container ships. New leasing agreements regularly contain a purchase option.

The increase in rental and lease commitments for aircraft mainly resulted from the conclusion of sale-and-lease-back agreements. The reduction in other commitments from lease and rental contracts mainly resulted from a decline in follow-up obligations for expired leases.

Financial instruments

Financial instruments represent contractual rights or obligations that will lead to an outflow or inflow of financial assets or the issue of equity rights. They also comprise derivative claims or obligations derived from other financial instruments. The fair value (market value) of a financial instrument is the amount for which an asset could be exchanged, sold or purchased, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Financial instruments were exposed to certain financial risk factors which the Group eliminated or limited by means of appropriate risk strategies and hedging methods.

Hedging strategy and risk management

In accordance with the Group's corporate financial goal, financial risks had to be limited. In order to implement this goal, the Group operated central risk management activities in the framework of which TUI AG acted as the Group's bank. As a matter of principle, it was responsible for all financial transactions for the Group companies and Group-wide financial risk management, based on guidelines and rules fixing binding decision bases, competencies and responsibilities for all financial transactions.

Derivative financial instruments were only used in the framework of internally fixed limits and other regulations. The instruments used had to be controllable with the Group's own resources (human resources, organisational resources, systems). The hedges used were exclusively non-listed derivatives, primarily fixed-price transactions (e.g. futures and swaps) as well as options. The transactions were concluded at arm's length with top-rated contracting counterparties in the financial sector. As a matter of principle, all hedging transactions of the Group were based on appropriately recognised or future underlying items.

There was a strict organisational separation between the functional areas of trading, settlement and control. Compliance with the set limits and guidelines was regularly monitored. Recognised standard software was used for the assessment, monitoring and reporting of the hedges entered into and the underlying items. The processes, the methods applied and the organisation of risk management were reviewed for compliance with the relevant regulations at least annually by the internal audit department and external auditors. In this context, the Group also performed a benchmarking against general industry standards.

The hedging transactions by the Group companies were based on the risk profile and hedge schedule of the respective company. The Group companies submitted monthly reports on their current and planned foreign currency and fuel requirements (or surpluses) to TUI AG. Based on the risk profile, the hedge schedule and the monthly reports submitted by the companies, each company defined its specific hedging strategy, on the basis of which TUI AG established its hedge portfolio.

TUI AG concluded appropriate hedge transactions with external counterparties, using potential netting effects (netting of income and expenses in the same currency and with equivalent terms).

Hedges of currency transactions in the tourism division covered between 95% and 100% of the planned foreign currency requirements in the respective tourism season after the calculated brochure prices had been fixed. The hedged volumes were adjusted to changes in planning requirements based on the monthly reports by the subsidiaries.

Currency transactions of the companies in the shipping division were also hedged in accordance with the planned exposures listed in the monthly reports submitted by the companies. Between 80% and 100% of the reported exposures were hedged in this division.

Hedges of price risks related to aircraft fuel were based on the hedging model used by the tourism companies. When calculations for the respective season were made, at least 95% of the exposures were hedged, taking account of possibilities of levying fuel price surcharges.

The fuel price risks for companies in the shipping division were hedged by means of financial derivatives, taking account of the applicable specific price escalator clauses (bunker adjustment factors). Hedges of the relevant exposures covered at least 80%.

Risk factors

The value of a financial instrument may change due to changes in exchange rates (currency risk), level of interest rates (interest rate risk) and changes in market and stock exchange prices (market risk).

Currency risk

The operative business of the TUI Group's companies generated payments denominated in foreign currencies, which were not always matched by congruent payments with equivalent terms in the same currency. To this extent the Group companies were exposed to currency risks. Within the TUI Group, risks from exchange rate fluctuations of more than 20 currencies were hedged, with the largest hedging volumes relating to US dollars, euros and British pounds sterling.

The largest hedging volume in the operative business related to US dollars. In the tourism business, payments in US dollars primarily related to the procurement of services in non-European destinations and purchases of aircraft fuel and aircraft. In the shipping division major procurement and sales transactions were denominated in US dollars. Due to the structure of the respective business, the tourism division had a substantial short position in US dollars while the shipping division had a long position in US dollars as a matter of principle.

The Eurozone limited the currency risk from transactions in the key tourist destinations to Group companies whose functional currency was not the euro. The tourism division and primarily the Northern Europe sector was mainly affected by changes in the value of the British pound sterling and the Swedish krona.

Interest rate risk (market value risk)

An interest rate risk, i.e. exposure to potential fluctuations in the value of a financial instrument resulting from changes in market interest rates (market value risk), arose primarily from medium- and long-term fixed-interest receivables and liabilities. Concerning long-term, fixed-interest financial liabilities, in particular the bonds issued, the fair values deviated from recognised carrying amounts. In accordance with IAS 32, the subordinated hybrid capital with no fixed maturity issued in December 2005 was not shown as a bond but as a separate component of Group equity.

Fair values and carrying amounts of the bonds issued (31 Dec 2006)

€ million	Volume	Interest rate % p.a.	of debt component	conversion options	Fair value	Carrying amount
					Total	
2003/08 convertible bond	384.6	4.000	380.4	9.9	390.3	362.1
2004/09 bond	400.0	3M EURIBOR plus 2.100	404.4	–	404.4	396.4
2005/10 bond	550.0	3M EURIBOR plus 1.550	539.2	–	539.2	540.6
2004/11 bond	625.0	6.625	637.5	–	637.5	612.7
2005/12 bond	450.0	5.125	426.4	–	426.4	441.4
2005/-- hybrid capital	300.0	until January 2013 subsequently 3M EURIBOR plus 7.300	302.1	–	302.1	294.6

Market risk

Market risk arises from the fact that the value of a financial instrument may change due to fluctuating market prices. In accordance with the rules of IAS 39, marketable securities were recognised at their fair values. Marketable available-for-sale securities mainly comprised listed shares and funds which were subject to normal price fluctuations on the capital markets. The market price risk of these investments was not hedged. As a matter of principle, changes in the market value of available-for-sale securities were taken directly to the revaluation reserve for financial instruments. Where any substantial impairments of available-for-sale securities occurred, the cumulative net loss previously shown in equity was recognised as an impairment in the result for the period.

Credit risk

The credit risk in non-derivative financial instruments results from the risk of non-performance of contractual payment obligations by counterparties.

Maximum credit risk exposure was mainly reported as the total of the fair values of the non-derivative financial assets, taking account of legally enforceable possibilities of netting financial assets and liabilities but not considering existing collateral. Since the TUI Group operated in many different business areas and regions in a diversified manner, significant credit risk concentrations from receivables from and loans to specific debtors or groups of debtors were not to be expected; a significant concentration of credit risks related to specific countries was not to be expected either. The Group covered the identifiable credit risk of individual receivables and the general credit risk by means of corresponding specific bad debt allowances. In addition, bad debt allowances based on empirical values were made on a portfolio basis.

For derivative financial instruments entered into, the maximum credit risk was the total of all positive market values of these instruments, since in the event of non-performance by the counterparties asset losses would be incurred only up to this amount. Since derivative financial instruments were concluded with a variety of top-rated debtors, no credit risk exposure was to be expected.

Liquidity risk

The Group's liquidity requirements were determined by means of its liquidity planning and covered by committed credit lines so that the Group's liquidity was guaranteed at any time.

Cash flow risk

The cash flow risk results from uncertainty about the levels and timing of cash inflows or outflows from future transactions. The Group's floating-rate financial liabilities in particular entailed the risk of fluctuations in future cash flows due to changes in interest rates level. In order to minimise this risk, interest rate hedges were concluded where necessary to limit the potential cost of borrowing funds. The effective portion of the changes in the market values of these financial instruments, classified as cash flow hedges in accordance with the rules of IAS 39, was taken directly to equity.

The cash flow risks resulting from future cash flows in foreign currencies were hedged through derivative financial instruments. To this end, the foreign currency requirements of the tourism division attributable to expected bookings for future tourism seasons were hedged by means of corresponding forward exchange or option contracts. The foreign currency risks from planned future payment flows in the shipping division were also hedged by corresponding forward exchange or option contracts.

Price risk

Price hedging instruments were used in order to hedge exposure to external price risks for commodities. These hedges were used by the Group's airlines and container shipping companies to hedge aircraft fuel required in the future. The price hedges were based on corresponding plans and generally qualified as cash flow hedges according to IAS 39. The effective portion of cumulative changes in market values was taken directly to equity until the hedged transaction occurred.

Upon settlement of the hedged item, the cumulative results were taken to the income or expense item covering the associated hedged transaction with an effect on results.

Nominal amounts of derivative financial instruments used

€ million	31 Dec 2006			31 Dec 2005	
	Remaining terms up to 1 year	Remaining terms more than 1 year	Total	Total	Remaining term more than 1 year
Interest rate hedges					
Swaps	1.9	110.7	112.6	65.0	65.0
Caps and floors	–	–	–	15.2	–
Currency hedges					
Forwards	4,040.3	1,944.9	5,985.2	3,610.3	259.0
Options	2,313.4	7.8	2,321.2	1,253.9	18.1
Collars	476.6	15.5	492.1	184.8	68.3
Swaps and other currency hedges	–	101.4	101.4	211.0	211.0
Commodity hedges					
Swaps	569.0	148.2	717.2	647.9	89.1
Options	118.0	–	118.0	119.4	69.9
Collars	233.2	9.2	242.4	44.2	–
Structured transactions	–	–	–	187.2	23.9

The nominal amounts corresponded to the total of all purchase or sale amounts or the respective contract values of the transactions. Cross currency interest rate swaps not unambiguously to be allocated to currency or interest rate hedges were shown under currency hedges.

As a matter of principle, the fair values of derivative financial instruments corresponded to the market values. The fair value of over-the-counter financial derivatives was determined by means of appropriate discounting methods, e.g. by discounting the expected future cash flows. The calculation of the fair values of options was based on the Black & Scholes models. The fair values determined on the basis of the Group's own systems were regularly compared with fair value confirmations of external counterparties.

**Positive and negative fair values of the derivative financial instruments
 shown as receivables or liabilities**

€ million	31 Dec 2006		31 Dec 2005	
	Receivables	Liabilities	Receivables	Liabilities
Fair value hedges to hedge exposure to currency risks	–	–	6.0	–
Cash flow hedges to hedge exposure to currency risks	44.8	60.0	146.2	13.8
market risks	14.6	69.8	29.7	23.8
Hedges	59.4	129.8	181.9	37.6
Other derivative financial instruments	24.7	13.4	18.3	35.5
Total	84.1	143.2	200.2	73.1

Financial instruments which were used in order to hedge a risk position according to operational criteria but did not meet the strict criteria of IAS 39 to qualify as hedges were shown as other derivative financial instruments. They included in particular structured hedges to hedge exposure to market risks in order to hedge the additional fuel volumes required in future by the airlines.

Major Subsidiaries, Associated Companies and Joint Ventures

	Nominal- share capital in '000	Result for- the year ¹⁾ in '000	Shareholding (%)	
			total	indirect
Tourism				
TUI Deutschland GmbH, Hanover	€ 20,000	*	100.0	–
TUI Leisure Travel GmbH, Hanover	€ 14,501	*	100.0	–
Hapag-Lloyd Fluggesellschaft mbH, Langenhagen	€ 45,000	*	100.0	–
GULET Touristik GmbH & Co KG, Vienna	€ 75	- 8,185	75.0	75.0
TUI (Suisse) AG, Zurich	CHF 4,854	4,330	100.0	100.0
TUI Nederland N.V., Rijswijk ²⁾	€ 10,000	13,223	100.0	–
JetAir N.V., Oostende ²⁾	€ 750	17,206	100.0	72.0
Groupe Nouvelles Frontières S.A.S., Montreuil	€ 3,274	6,933	100.0	–
Touraventure S.A., Montreuil	€ 10,470	- 28,420	100.0	91.7
TUI Northern Europe Ltd., Luton ³⁾	GBP 250,459	- 23,468	100.0	–
Robinson Club GmbH, Hanover	€ 5,138	*	100.0	–
"MAGIC LIFE der Club" International Hotelbetriebs GmbH & Co KG, Vienna	€ 146	- 83,130	100.0	100.0
Turcotel Turizm A.S., Istanbul	€ 38,320	- 21,000	100.0	100.0
RIUSA II S.A., Palma de Majorca ^{2) 5)}	€ 1,202	68,825	50.0	–
Atlantica Hellas S.A., Athens ⁴⁾	€ 11,026	69	50.0	–
GRUPOTEL DOS S.A., Cón Picafort ⁴⁾	€ 76,092	- 283	50.0	–
Tunisie Voyages S.A.R.L., Tunis ³⁾	TND 1,810	3,180	50.0	–
RIU Hotels S.A., Palma de Majorca ⁴⁾	€ 40,809	25,487 ⁶⁾	49.0	–
TUI InfoTec GmbH, Hanover ^{2) 4)}	€ 1,000	1,840	49.9	49.9
Shipping				
Hapag-Lloyd AG, Hamburg	€ 25,600	*	100.0	–
Hapag-Lloyd Kreuzfahrten GmbH, Hamburg	€ 520	*	100.0	–
Other Companies				
TUI Beteiligungs GmbH, Hanover	€ 500	*	100.0	–
Salzgitter Grundstücks- und Beteiligungsgesellschaft mbH, Salzgitter	€ 71,427	*	100.0	–
Preussag Immobilien GmbH, Salzgitter	€ 25,857	*	100.0	100.0

* Profit transfer agreement

¹⁾ according to local laws

²⁾ according to financial statements of the Group

³⁾ according to financial statements as per 31 Dec 2005

⁴⁾ Joint venture

⁵⁾ Control despite shareholding of 50% or less

⁶⁾ Result for the year according to financial statements as per 31 Dec 2005

Notes on the Cash Flow Statement

Notes on the cash flow statement

The cash flow statement showed the flow of cash and cash equivalents on the basis of a separate presentation of cash inflows and outflows from operating, investing and financing activities. The effects of changes in the group of consolidated companies were eliminated. The assets and liabilities grouped together as disposal groups in accordance with IFRS 5 were reallocated to the original balance sheet items for the purposes of the cash flow statement. The cash flow statement for 2005 thus deviates from the consolidated balance sheet, in particular with regard to cash and cash equivalents carried.

**(45) Cash inflow/outflow
from operating activities**

The cash inflow from operating activities included interest received. Compared with the previous financial year, the cash flow from operating activities was mainly affected by a decline in the cash inflow from shipping operations due to the drop in earnings in the shipping sector in the financial year under review. The key factors influencing this trend were the increase in bunker costs and the integration costs incurred. The cash flow from operating activities was also affected by the development of the steel trading activities. While the steel service companies contributed € 121.5 million to the cash flow from operating activities in 2005, they caused a cash outflow of € 17.4 million in the completed financial year. In 2005, the cash flow had also benefited from the cash inflow of € 67.6 million from special logistics activities. In the year under review, interest payments received totalled € 64.5 million (previous year: € 58.6 million). In the 2006 financial year, income tax payments resulted in a cash outflow of € 62.1 million (previous year: € 116.2 million).

**(46) Cash inflow/outflow
from investing activities**

The cash payments for investments in property, plant and equipment and intangible assets or the cash receipts from corresponding disposals did not match the additions or disposals shown under the development of fixed assets, which included non-cash investments and disposals. The cash outflow from investing activities comprised the payments for the acquisition of interests in companies to be included in consolidation, offset against the amount of cash and cash equivalents acquired. The consolidated balance sheet comprised additions of goodwill, assets and liabilities due to the acquisition of interests in subsidiaries included in consolidation. In the completed financial year, dividend payments received including dividends received by the companies measured at equity generated cash inflows of € 22.9 million (previous year: € 32.5 million).

Overall, payments of around € 43.9 million (previous year: around € 2,099.7 million) were made in the 2006 financial year for acquisitions of interests in subsidiaries and participations. The amount of cash and cash equivalents acquired with these acquisitions totalled around € 1.1 million. The high cash outflow in 2005 mainly resulted from the acquisition of CP Ships in the fourth quarter. In the 2005 financial year, the divestment of the US steel service companies, the TQ3 Group, Wolf GmbH,

the TUI InfoTec Group and further divestments resulted in a total cash inflow of € 719.7 million. The amount of cash and cash equivalents sold due to these divestments totalled around € 32.1 million in the 2006 financial year.

Non-cash investments in the shipping and tourism divisions were primarily effected by means of finance leases. Lease agreements resulted in total investments of € 76.9 million (previous year: € 124.5 million).

**(47) Cash inflow/outflow
from financing activities**

In the 2006 financial year, the cash flow from financing activities was substantially characterised by the redemption of the bearer bond of € 750.0 million which matured in October 2006. The redemption was primarily effected with cash inflows from divestments of subsidiaries. In addition, € 400 million were raised through private placements with maturities of around three years in the framework of general corporate refinancing. In the previous year the capital increase and the issue of two bonds resulted in a cash inflow of € 2.0 billion. The hybrid capital carried as equity generated an additional cash inflow of € 0.3 billion. Cash flows from financing activities included cash flows due to financial liabilities taken up or redeemed and interest paid in the financial year under review.

**(48) Development of cash
and cash equivalents**

Cash and cash equivalents comprised all liquid funds, i.e. cash in hand, bank balances and cheques. The impact of changes in cash and cash equivalents due to exchange rate fluctuations is shown separately. Also outlined separately are the changes in cash and cash equivalents attributable to changes in consolidation which did not result from the acquisition or divestment of companies. As in 2005, cash and cash equivalents were not subject to any restraints on disposal as at 31 December 2006.

Other Notes

Significant events after the balance sheet date

The integration of CP Ships into Hapag-Lloyd changed the primary economic environment of the companies operating in the shipping division to such an extent that the functional currency was changed from the euro to the US dollar. The assessment of the functional currency was based on freight rates, cash inflow and cost structures. As of 1 January 2007, the companies operating in the container shipping division will therefore prepare their financial statements in US dollars.

On 22 February 2007, CP Ships Limited concluded a contract on the sale of the material assets of Montreal Gateway Terminals to Montreal Gateway Terminals Limited Partnership, a company specifically established by Morgan Stanley Infrastructure Partners for this purpose. Montreal Gateway Terminals was a constituent of the business of the container shipping line CP Ships acquired in 2005 by TUI AG. Montreal Gateway Terminals is the second largest container terminal in Canada and the third largest on the eastern coast of North America. This sale was effected in the framework of the reduction in invested capital, announced by TUI AG.

Montreal Gateway Terminals Limited Partnership acquired the container terminal business on the basis of an asset deal. TUI continues to hold a 20% interest in the new Montreal Gateway Terminals Limited Partnership through CP Ships Limited. The purchase price of the transaction totalled around € 300 million. As a key account, Hapag-Lloyd continues its relationship with the terminal on the basis of a long-term contract.

Apart from this transaction, no further material transactions were resolved, initiated or implemented in the period between the balance sheet date and the day on which the audit certificate was granted by the auditors (5 March 2007).

Services of the auditors of the consolidated financial statements

In the 2006 financial year, total expenses of € 4.8 million were carried for the professional services provided by the auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. Of this total, € 2.5 million were related to audits, € 2.2 million to other attestation or measurement services, and € 0.1 million to other services provided for TUI AG or its subsidiaries.

Remuneration of the Executive and Supervisory Board members

In the financial year under review, remuneration paid to Board members totalled € 7,368.0 thousand (previous year: € 9,130.3 thousand).

In the framework of the long-term incentive programme, the Board members received a compensation of € 17.0 thousand (previous year: € 2,005.5 thousand) for the financial year under review. The amount paid in the previous year was

translated into 123,036 phantom shares in TUI AG in March 2006. The compensation granted for 2006 will be translated into phantom shares at the Supervisory Board meeting in March 2007.

The pension provisions for active Executive Board members totalled to € 20,663 thousand as at 31 December 2006 (previous year: € 18,675 thousand).

Total remuneration of the Supervisory Board members amounted to € 2,013 thousand (previous year: € 2,173 thousand) in the financial year under review.

Remuneration for former Executive Board members or their surviving dependants totalled € 5,652 thousand (previous year: € 3,679 thousand) in the financial year under review. Pension obligations for former Executive Board members or their surviving dependants amounted to € 47,811 thousand (previous year: € 46,671 thousand) in the financial year under review.

Disclosures of the relevant amounts for individual Board members and further details on the remuneration systems are provided in the compensation report included in the management report.

Related parties

Apart from the subsidiaries included in the consolidated financial statements, TUI AG, in carrying out its ordinary business activities, maintained indirect or direct relationships with related parties. Related parties controlled by the TUI Group or over which the TUI Group was able to exercise a significant influence are listed in the list of shareholdings deposited in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover. Apart from pure equity investments, related parties also included companies that supplied goods or provided services for TUI Group companies.

Transactions with related parties (excl. key management)

€ million	2006	2005
Services provided by the Group		
Management and consultancy services	30.1	26.0
Sales of tourism services	5.4	4.0
Distribution services	8.2	7.7
Other services	–	5.2
Total	43.7	42.9
Services received by the Group		
in the framework of lease, rental and leasing agreements	30.6	25.7
Purchase of hotel services	119.2	139.4
Incoming services	160.7	92.3
Distribution services	4.2	4.2
Container handling and terminal services	43.4	31.1
Other services	12.0	10.0
Total	370.1	302.7

Transactions with related parties (excl. key management)

€ million	2006	2005
Services provided by the Group to		
non-consolidated Group companies	9.8	9.6
joint ventures	17.9	16.5
associated companies	3.6	0.2
other shareholdings	–	5.2
natural persons	12.4	11.4
Total	43.7	42.9
Services received by the Group from		
non-consolidated Group companies	24.8	36.2
joint ventures	178.6	177.1
associated companies	102.2	81.2
other shareholdings	57.9	–
natural persons	6.6	8.2
Total	370.1	302.7

Transactions with associated companies and joint ventures were primarily effected in the tourism division. They related in particular the tourism services of the incoming agencies and hotel companies used by the Group's tour operators.

All transactions with related parties were executed on an arm's length basis, based on international comparable uncontrolled price methods in accordance with IAS 24.

As in 2005, liabilities to related parties did not comprise any liabilities from finance leases. Receivables and liabilities existing as at the balance sheet date were comprised in receivables from and liabilities to non-consolidated Group companies and associated companies.

The income and expenses resulting from equity investments and financing were carried under the financial result for all consolidated companies and presented in the segment report for the individual divisions, together with a separate presentation of the results of companies measured at equity by divisions.

At the balance sheet date, the joint venture RIU Hoteles S.A. held 5.1% of the shares in TUI AG. Ms Carmen Riu Güell and Mr Abel Matutes Juan are members of TUI's Supervisory Board and indirectly hold 5.1% and 2.4%, respectively, of the shares in TUI AG.

In accordance with IAS 24, key management functions within the Group, the Executive Board and the Supervisory Board, are related parties whose remuneration has to be listed separately.

€ million	2006	2005
Short-term employee benefits	8.8	9.2
Post-employment benefits	2.0	0.8
Other long-term employee benefits	0.5	–
Termination benefits	5.3	–
Share-based payment	–	1.8
Total	16.1	11.8

The termination benefits were expensed additions to pension provisions for active Board members in the respective financial year. In accordance with the Corporate Governance Code, these expenses do not represent remuneration of the Executive and Supervisory Board. Termination benefits included an amount of € 3.3 million for the additions to provision.

Hanover, 5 March 2007

The Executive Board

Frenzel

Behrendt

Engelen

Feuerhake

Mueller

Rothwell

Auditor's Report

'We have audited the consolidated financial statements prepared by the TUI AG, Berlin and Hanover, comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the TUI AG for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.'

Hanover, 5 March 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Winkeljohann
Wirtschaftsprüfer

Dr. Rolfes
Wirtschaftsprüfer

Forward-looking Statements

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

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

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Financial Calendar 2007

Interim Report January to March 2007	11 May 2007
Annual General Meeting 2007	16 May 2007
Interim Report January to June 2007	9 August 2007
Interim Report January to September 2007	8 November 2007

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