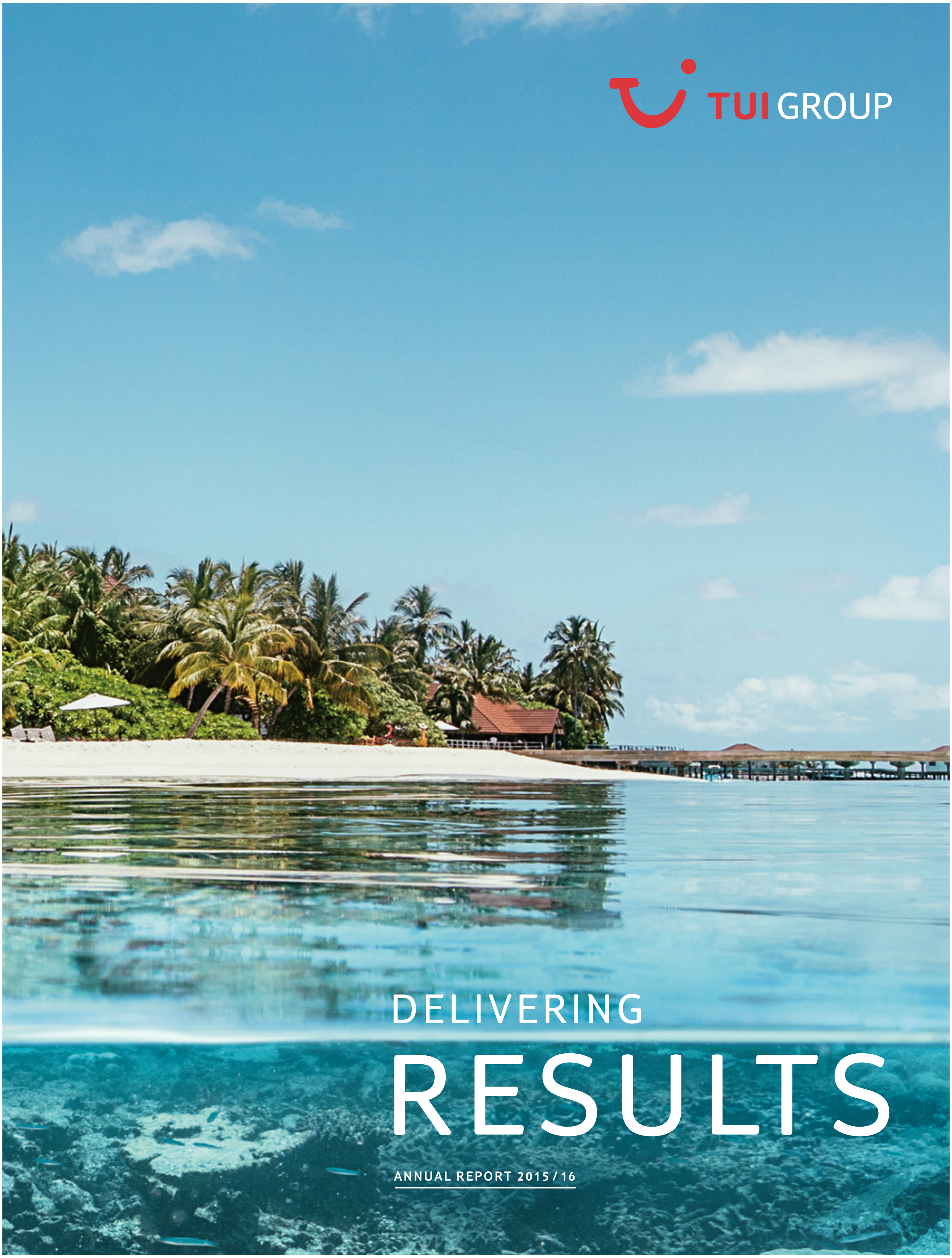


TUI GROUP

# DELIVERING RESULTS

ANNUAL REPORT 2015/16

# TUI Group in numbers

Over 50 % underlying EBITA comes from our content businesses[1]

**> 50 %**

at least 10 %

## Guidance extended to 2018 / 19

We expect to deliver at least 10 % growth in underlying EBITA in 2016 / 17[2], and reiterate our previous guidance of at least 10 % underlying EBITA CAGR to 2018 / 19[1]. This balanced guidance is a clear demonstration of the confidence we have in our growth strategy, against what continues to be an uncertain geopolitical and macro-economic backdrop.

## Merger synergies

We have delivered € 60 m additional merger synergies in 2015 / 16 and expect the remaining € 20 m of synergies to be delivered in 2016 / 17.

**€ 60 M**

[1] In destination content (Hotels, Destinations Services) and Cruises (TUI Cruises, Thomson Cruises, Hapag-Lloyd Cruises)
[2] At constant currency rates and restated for discontinued operations

## Media

*The Annual Report and the Magazine are also available online*

Online

Mobile

*http://annualreport2015-16.tuigroup.com/*

## Compass

*This is a page reference.*

*This is a web link.*

*»When we merged with TUI Travel at the end of 2014, we promised to deliver an average increase in underlying EBITA of at least 10 per cent per annum over the three years to 2017/18. We maintain that guidance. We are delivering the results we promised.«*

**Friedrich Joussen,** *CEO of TUI Group*

# CONTENTS

# FINANCIAL HIGHLIGHTS

| € million | 2013/14[5] restated | 2014/15 restated | **2015/16** | Var. % |
|---|---|---|---|---|
| Turnover | 18,536.8 | 17,515.5 | 17,184.6 | –1.9 |
| Underlying EBITA[1] | | | | |
| Northern Region | 404.9 | 538.4 | 460.9 | –14.4 |
| Central Region | 162.8 | 103.5 | 88.5 | –14.5 |
| Western Region | 83.3 | 68.7 | 86.1 | +25.3 |
| Hotels & Resorts | 202.9 | 234.6 | 287.3 | +22.5 |
| Cruises | 9.7 | 80.5 | 129.6 | +61.0 |
| Other Tourism | 29.0 | 8.4 | 4.6 | –45.2 |
| **Tourism** | **892.6** | **1,034.1** | **1,057.0** | **+2.2** |
| All other segments | –114.1 | –80.8 | –56.5 | +30.1 |
| **TUI Group** | **778.5** | **953.3** | **1,000.5** | **+5.0** |
| Discontinued operations | 88.7 | 107.2 | 92.9 | –13.3 |
| **Total** | **867.2** | **1,060.5** | **1,093.4** | **+3.1** |
| EBITA[2] | 778.5[4] | 794.6 | 898.1 | +13.0 |
| Underlying EBITDA | 1,068.6[4] | 1,344.1 | 1,379.6 | +2.6 |
| EBITDA | 1,095.3[4] | 1,214.7 | 1,305.1 | +7.4 |
| Net profit for the period (continuing operations) | 332.0[4] | 407.6 | 464.9 | +14.1 |
| Earnings per share (continuing operations) € | 0.48[4] | 0.66 | 0.61 | –7.6 |
| Equity ratio % | 18.1 | 17.2 | 22.5 | +5.3[3] |
| Net capex and investments | 637.1 | 659.0 | 691.0 | +4.9 |
| Net financial position | –292.4[4] | 213.7 | –31.8 | n. a. |
| Employees | 77,028 | 76,036 | 66,779 | –12.2 |

Differences may occur due to rounding.

[1] In order to explain and evaluate the operating performance by the segments, EBITA adjusted for one-off effects (underlying EBITA) is presented. Underlying EBITA has been adjusted for gains/losses on disposal of investments, restructuring costs according to IAS 37, ancillary acquisition costs and conditional purchase price payments under purchase price allocations and other expenses for and income from one-off items.

[2] EBITA comprises earnings before net interest result, income tax and impairment of goodwill excluding losses on container shipping and excluding the result from the measurement of interest hedges.

[3] Equity divided by balance sheet total in %, variance is given in percentage points.

[4] Excl. LateRooms, Hotelbeds Group and Specialist Group

[5] Pro forma data, unaudited: Hotelbeds Group and Specialist Group were treated as discontinued operations since 2013/14.

## Media

*The Annual Report and the Magazine are also available online*

Online

Mobile

*http://annualreport2015-16.tuigroup.com/*

## Compass

*This is a page reference.*

*This is a web link.*

*CEO Friedrich Joussen*

# Dear Shareholders,

We are delighted to report that TUI Group recorded an excellent development in the completed financial year 2015 / 16. Despite continued major geopolitical challenges, we managed to increase our operating result again by 14.5 per cent. Our positive performance underpins the great resilience of our strategic positioning as a vertically integrated tourism group. Thanks to our access to all elements of the value chain, we are very flexible in responding to changes in our customers' travel preferences. Your Company is therefore in an excellent state of health. Let me thank you all for your interest and support in the completed year.

And yet we will not rest on our laurels but will press ahead with our growth roadmap. In the cruise business, we have expanded our fleet to 14 ships with the launch of Mein Schiff 5 in the German market and TUI Discovery in the UK. We are aiming to become one of Europe's leading cruise liners. That is why we will continue to invest in new ships in the next few years, at both TUI Cruises and Thomson Cruises and in our luxury cruise subsidiary Hapag-Lloyd Cruises.

We are also pursuing an ambitious growth roadmap in Hotels & Resorts. In early summer, we opened the first two hotels of our new hotel brand TUI Blue. Overall, our hotel portfolio for our core brands Riu, Robinson, TUI Blue and TUI Magic Life and our hotel concepts Sensatori, Sensimar and Family Life grew by nine hotels in the completed financial year. In expanding our portfolio of Group-owned hotels, we find year-round destinations offering 365 days of sunshine particularly attractive. Our investments focus on the Caribbean, a destination for customers from both Europe and the United States.

The consistent expansion of the cruise and hotel segment will gradually change the structure of your Company. We are steadily transforming from a group with a strong trading business to a content provider with strong market positions in the cruise and hotel sector, which already contribute around half of our profits today. Our transformation will take us from a tour operator to a hotel and cruise group, further reducing the strong seasonality of our business, which currently still impacts the valuation by rating agencies.

To build TUI Group further, we are relying on a mix of centrally managed areas and our strong local companies in the individual markets. This will enable us to benefit from economies of scale on a global level without losing customer centricity and our focus on their individual needs and expectations. We have identified six areas in which we can benefit from the strength of a global player: brand, IT, aviation, hotels and product purchasing, cruises, and destination services.

We have exited or are planning to sell business operations that will not deliver synergies under the umbrella of TUI. In the completed financial year, we sold Hotelbeds Group, world market leader for bedbanks, to the British investor Cinven Capital Management and the Canada Pension Plan Investment Board for 1.2 billion euros. This very successful transaction is good for the future of Hotelbeds and good for you, TUI Group's shareholders. The proceeds from the sale will be used to promote our growth roadmap in hotels and cruises and strengthen our balance sheet.

TARGET VALUES ◂

Following the successful sale of Hotelbeds Group, we initiated the divestment of Travelopia, a collection of specialist tour operation brands that had already been managed as an independent entity since the merger between TUI AG and TUI Travel PLC at the end of December 2014. Travelopia combines more than 50 great brands and successful companies. However, there is limited linkage to our core tourism business and limited ability to achieve any economies of scale. Due to the potential impact on our profitability and the large number of brands, this business will not continue under our master brand TUI. I am therefore convinced that the best way to maximise the value of this business for you, our shareholders, is to dispose the specialists as a whole.

The portfolio of specialists will be disposed in one transaction in financial year 2016 / 17, with the exception of the two tour operation brands Crystal Ski and Thomson Lakes & Mountains, which we have transferred into TUI UK & Ireland. These two vertically integrated brands deliver strong synergies with our core tourism business. Both Crystal Ski and Thomson Lakes & Mountains play a major role in securing the load factor for our aircraft fleet in the UK, in particular in winter, and therefore generate the synergy potential the other specialist providers lack.

In the completed financial year, we have taken major steps to move towards the structure and strategic positioning our Group is aiming to achieve. Our integrated business model has proven robust and future-proof, so that we are in a very good position to tackle the next few years.

In the framework of the merger with TUI Travel at the end of 2014, we promised you, our shareholders, that we will deliver EBITA CAGR of at least 10 per cent over the three years to 2017 / 18. We maintain that guidance, and we are delivering the results we had promised you.

TUI Group's positive economic performance is also reflected in the attractive dividend we will again be distributing. We have submitted a proposal to the Annual General Meeting to increase the dividend for financial year 2015 / 16 to 63 cents per share, up by around 13 per cent on the prior year.

TUI Group has demonstrated its strength once more in year two. As the world's leading tourism group, we are pursuing a clear strategic roadmap in order to create maximum value for you, our shareholders.

Let me thank you for your confidence, support and loyalty to TUI.

Sincerely yours,

Friedrich Joussen
CEO of TUI AG

| KEY FIGURES<br>Target 2015 / 16[1] | TARGET ACHIEVEMENT<br>Actual 2015 / 16 | OUT-LOOK<br>Target 2016 / 17 |
|---|---|---|
| **Turnover in € bn** | | |
| at least 3 %[2] | 17.2 + 1.4 %[2] | approximately + 3 %[2] |
| **EBITA (underlying) in € m** | | |
| at least 10 %[2] | 1,001 + 14.5 %[2] | at least + 10 %[2] |
| **Adjustments in € m** | | |
| 136[2, 3] costs | 103 costs | 80 costs |
| **Net capex and investments in € bn** | | |
| 0.8 | 0.7 | 1.0[4] |
| **Net debt in € bn** | | |
| broadly neutral[2, 3] | broadly neutral | approximately 0.8 net debt |

TARGET VALUES

1 As published on 10 December 2015, the outlook was updated during the year
2 Variance year-on-year assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current group structure; guidance relates to continuing operations and excludes any disposal proceeds for Travelopia and Hapag-Lloyd AG.
3 Target adjusted treating Hotelbeds Group and Specialist Group as discontinued operations
4 Excluding aircraft orderbook finance

# GROUP EXECUTIVE COMMITTEE

**FRIEDRICH JOUSSEN**
*CEO*

**DAVID BURLING**
*Member of the Executive Board;*
*Nothern Region, Airlines,*
*Hotel Purchasing*

**DR HILKA SCHNEIDER**
*Group Director Legal,*
*Compliance & Board Office*

**ELIE BRUYNINCKX**
*CEO Western Region*

**KENTON JARVIS**
*Group Director Controlling and*
*Financial Director Tourism*

THOMAS ELLERBECK

*Group Director Corporate & External Affairs*

ERIK FRIEMUTH

*Group Chief Marketing Officer*

DR ELKE ELLER

*Member of the Executive Board;*

*Human Resources/Personnel Director*

HORST BAIER

*Member of the Executive Board;*

*CFO*

FRANK ROSENBERGER

*Group Director Strategy*

SEBASTIAN EBEL

*Member of the Executive Board;*

*Central Region, Hotels and Resorts, Cruises, TUI Destination Services and IT*

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

*The Supervisory Board of TUI AG at its meeting on 25 October 2016, Riu Plaza Hotel Berlin*

*Left escalator from the top:*
*Anette Strempel,*
*Michael Pönipp,*
*Peter Bremme,*
*Carmen Riu Güell,*
*Carola Schwirn,*
*Sir Michael Hodgkinson (Deputy Chairman),*
*Andreas Barczewski,*
*Angelika Gifford*

*Right escalator from the top:*
*Wolfgang Flintermann,*
*Ortwin Strubelt,*
*Dr Dierk Hirschel,*
*Mag. Stefan Weinhofer,*
*Frank Jakobi (Deputy Chairman),*
*Prof. Klaus Mangold (Chairman),*
*Valerie Gooding,*
*Prof. Edgar Ernst,*
*Peter Long,*
*Janis Kong*

*Members not in the photo:*
*Coline McConville,*
*Alexey Mordashov*

# REPORT OF THE SUPERVISORY BOARD

## Ladies and Gentlemen,

We have successfully completed financial year 2015 / 16. Our employees, Executive Board and Supervisory Board have jointly achieved many objectives and exceeded some targets. Key projects for the future of the Company have been completed or are well on track. In the Report of the Supervisory Board presented below, I would like, on behalf of the entire Supervisory Board, to tell you about the key activities of our various committees in financial year 2015 / 16.

Two years after the merger between TUI AG and TUI Travel PLC, the integration of the two companies is almost complete. The synergies we had promised were delivered. The merger and the integration have created the conditions for the future growth of the Company that had been sought by the Executive Board and Supervisory Board. Apart from close monitoring of the synergies, the focus of the work by the Supervisory Board and Integration Committee in the financial year under review was on cultural integration. Our declared goal is and remains not to be a German or British but an international company. The Supervisory Board itself is a good example: only three of the ten shareholder representatives elected by you have a German passport. The successful work performed by the Executive Board in the integration process is also demonstrated by the results of our TUIgether employee survey, performed for the second time in the past financial year. Due to the clear corporate strategy defined by the Executive Board and supported by the Supervisory Board, but also the expansion of career and development opportunities, the identification and satisfaction of the employees of your Company have improved substantially.

Overall, the completed financial year was characterised by the continued volatility of the external framework. With the attack on Brussels Airport in March 2016, terrorism reached a key source market. Our employees and management have delivered an impressive performance in the interests of our customers: they have given a face to customers' trust in the TUI Smile. We were also challenged by changes in customer demand for travel to Turkey and North Africa: our debates focused on shifting capacity to alternative destinations, initiated and successfully implemented by the Executive Board, and the organisation of Group-wide crisis management. We likewise addressed the decision taken in the UK in June 2016 to be the first country to leave the European Union since its inception. Long before and directly after the Brexit vote, the Executive Board and Supervisory Board discussed potential consequences and an action plan, and this remains a matter of attention.

Thanks to its flexible business model, TUI AG managed to increase its earnings year-on-year in financial year 2015 / 16, despite the challenging geopolitical framework. That is a remarkable achievement, as numerous competitors and peers had to correct their earnings guidance downward, in some cases quite substantially.

The Supervisory Board and its Committees discussed many technical issues and business transactions requiring its approval. Apart from monitoring compliance with the German Corporate Governance Code (DCGK) and regularly discussing questions related to the UK Corporate Governance Code (UK CGC), our work focused on reviewing and debating the financial statements of TUI AG and the Group. We also closely monitored the focussing of the business model and the associated divestments. Both the completed divestment of Hotelbeds Group and the planned sale of Specialist Group are prerequisites for investments in growth during the next few years. The Strategy Committee formed after the 2016 Annual General Meeting provides a key platform for engaging in an even more intensive exchange with the Executive Board about strategically relevant decisions and preparing the debates of the Supervisory Board.

Although the forthcoming financial year 2016 / 17 entails uncertainty regarding the geopolitical situation and the further Brexit process, we have every reason to look ahead with confidence. TUI AG is on a growth path. Our business model continues to progress consistently and systematically from distribution towards production with integrated control of value creation. Our clear strategic direction makes TUI AG an attractive and promising investment.

On behalf of the entire Supervisory Board, let me express warm gratitude to our employees and the Executive Board for an excellent job done in financial year 2015 / 16.

## Cooperation between the Executive Board and the Supervisory Board

In a stock corporation under German law, there is a mandatory strict separation of management of a company and oversight over management. While the management of the company is the exclusive task of the executive board, the supervisory board is in charge of advising and overseeing the executive board. As the oversight body, the Supervisory Board provided ongoing advice and supervision for the Executive Board in managing the Company in financial year 2015 / 16, as required by the law, the articles of association and our own terms of reference. Its actions were guided by the principles of good and responsible corporate governance. Our monitoring activities essentially served to ensure that the management of business operations and the management of the Group were lawful, orderly, fit for purpose and commercially robust. The individual advisory and oversight tasks of the Supervisory Board are set out in terms of reference. Accordingly, the Supervisory Board is, for instance, closely involved in entrepreneurial planning processes and the discussion of strategic issues. Moreover, there is a defined list of specific Executive Board decisions requiring the consent of the Supervisory Board, some of which call for detailed review in advance and require the analysis of complex facts and circumstances from a supervisory and consultant perspective.

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

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

## Deliberations in the Supervisory Board and its Committees

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

In financial year 2015 / 16, we again recorded a gratifyingly high meeting attendance, as we have done for several years. Average attendance was 96.6 % (previous year 95.1 %) at plenary meetings and 90.7 % (previous year 96.9 %) at Committee meetings. No Supervisory Board member attended fewer than half of the Supervisory Board meetings in financial year 2015 / 16. Members unable to attend a meeting usually participated in the voting through proxies. Preparation of all Supervisory Board members was greatly facilitated by the practice of distributing documents in advance in the run-up to the meetings and largely dispensing with handouts at meetings.

**ATTENDANCE AT MEETINGS OF THE SUPERVISORY BOARD 2015/16**

| Name | Supervisory Board | Presiding Committee | Audit Committee | Nomination Committee | Integration Committee | Galaxy Committee |
|---|---|---|---|---|---|---|
| Prof. Dr Klaus Mangold (Chairman)[1] | 8 (8)[1] | 7 (7)[1] | 6 (6) | 3 (3)[1] | 3 (3)[1] | 2 (2) |
| Frank Jakobi (Deputy Chairman)[2] | 8 (8)[2] | 6 (7)[2] | | | 3 (3) | 2 (2) |
| Sir Michael Hodgkinson (Deputy Chairman)[2] | 8 (8)[2] | 7 (7)[2] | | 3 (3) | 3 (3)[2] | |
| Andreas Barczewski | 8 (8) | 4 (4) | 6 (6) | | | |
| Peter Bremme | 8 (8) | 3 (3) | | | | |
| Prof. Dr Edgar Ernst | 8 (8) | | 6 (6)[1] | | 3 (3) | |
| Wolfgang Flintermann (since 13 June 2016) | 2 (2) | | | | | |
| Angelika Gifford (since 9 February 2016) | 4 (5) | | | | | 1 (2) |
| Valerie Gooding | 7 (8) | | | | 1 (2) | 1 (2) |
| Dr Dierk Hirschel | 8 (8) | | 3 (3) | | | |
| Janis Kong | 8 (8) | | 2 (3) | | | |
| Peter Long (since 9 February 2016) | 4 (5) | | | | | 2 (2)[1] |
| Coline McConville | 8 (8) | | 3 (3) | | 2 (2) | |
| Alexey Mordashov (since 9 February 2016) | 4 (5) | 2 (3) | | 0 (0) | | 2 (2) |
| Michael Pönipp | 8 (8) | | 6 (6) | | | |
| Timothy Powell (until 9 February 2016) | 3 (3) | | 3 (3) | | 1 (1) | |
| Wilfried Rau (deceased on 30 March 2016) | 4 (4) | | | | | |
| Carmen Riu Güell | 7 (8) | 5 (7) | | 3 (3) | | |
| Carola Schwirn | 8 (8) | | | | | |
| Maxim Shemetov (until 9 February 2016) | 3 (3) | 4 (4) | | 3 (3) | | |
| Anette Strempel | 8 (8) | 7 (7) | | | | |
| Prof. Christian Strenger (until 9 February 2016) | 3 (3) | | 3 (3) | | 0 (1) | |
| Ortwin Strubelt | 8 (8) | 3 (3) | 6 (6) | | | |
| Stefan Weinhofer (since 9 February 2016) | 5 (5) | | | | | |
| Marcel Witt (until 9 February 2016) | 3 (3) | | | | | |

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

## Key topics discussed by the Supervisory Board

1. At our meeting on 21 October 2015, we discussed the replacement of variable pay for the Supervisory Board members. In line with the recommendations of the Corporate Governance Codes in Germany and the UK, a proposal for a resolution to be submitted to the Annual General Meeting 2016 was adopted setting out a transformation to purely fixed compensation. We also defined the personal performance factors for the annual performance bonuses for members of the Executive Board in financial year 2014 / 15 and the relevant reference indicators for financial year 2015 / 16. Following due deliberation, we established the appropriateness of the remuneration and pensions for Executive Board members. The Supervisory Board also approved the budget for financial year 2015 / 16 and took note of the planning for the two subsequent years. We resolved the annual capital increase in conjunction with the issue of employee shares in 2015 and obtained information about the status of the IPO of Hapag-Lloyd AG.

2. At its meeting on 9 December 2015, the Supervisory Board discussed in detail the annual financial statements of TUI Group and TUI AG, each having received an unqualified audit opinion from the auditors, the combined management report for TUI Group and TUI AG and the Report by the Supervisory Board, the Corporate Governance Report and the Remuneration Report. The discussions were also attended by representatives of the auditors. Following comprehensive debate of these reports and its own review carried out on the previous day by the Audit Committee, the Supervisory Board endorsed the findings of the auditors and approved the financial statements prepared by the Executive Board and the combined management report for TUI AG and the Group. The annual financial statements for 2014 / 15 were thereby adopted. Moreover, the Supervisory Board approved the Report by the Supervisory Board, the Corporate Governance Report and the Remuneration Report. It also adopted the invitation to the ordinary AGM 2016 and the proposals for resolutions to be submitted to the AGM.

   We also decided to adjust our targets for the composition of the Supervisory Board (see Corporate Governance Report) and considered the HR and Social Reports, our TUIgether employee survey, the implementation of the female and gender quotas in Germany, the IT strategy and safety. We took a careful look at the results of the efficiency review of the Supervisory Board conducted at the end of financial year 2014 / 15 and decided on the next steps. We also resolved the 2015 declaration of compliance with the German Corporate Governance Code and the Corporate Governance Declaration required by UK CGC. After intensive deliberations, we also approved the launch of the divestment process for Hotelbeds Group.

3. On 8 February, the Supervisory Board mainly discussed TUI AG's interim statement and report for the quarter ended 31 December 2015 and prepared the 2016 Annual General Meeting. Our deliberations also focused on the disposal process for Hotelbeds Group and the turnaround in Germany. The Supervisory Board approved the construction of two expedition newbuilds for Hapag-Lloyd Cruises. We also agreed measures resulting from the Supervisory Board's efficiency review, developed in the framework of a workshop on 21 January 2016.

4. On 9 February 2016, the Supervisory Board met for its first meeting in its new composition directly after the 2016 AGM. Following the election of the Supervisory Board chairman and two deputy chairmen, we elected the members of the Presiding Committee, Audit Committee, Nomination Committee, Integration Committee, Strategy Committee and Mediation Committee.

5. At its extraordinary meeting on 27 April 2016, convened at short notice due to its urgency, the Supervisory Board approved the sale of Hotelbeds Group following comprehensive information from the Executive Board and external advisors and intensive reviews carried out by the Supervisory Board itself. Our deliberations focused on the appropriateness of the sale price, the key terms and conditions of the transaction, transaction security, financing and safeguarding of employee interests.

6. On 10 May 2016, we debated TUI AG's interim report for the second quarter ended on 31 March 2016 and the half-year financial report. The Supervisory Board also discussed the organisational Health & Safety structure, the measures launched by the Executive Board as a result of the TUIgether employee survey, the OneShare employee share programme and the impact of a potential Brexit. The Supervisory Board also approved a large number of transactions (e. g. acquisition of all shares in atraveo GmbH, acquisition of the cruise ship Legend of the Seas and Transat France SA, launch of a divestment process for Specialist Group). The Supervisory Board furthermore had to again adopt a resolution regarding the newbuild of two expedition ships for Hapag-Lloyd Cruises, as the shipyard

envisaged at the meeting in February was no longer available due to a change in ownership. We also approved the issue of employee shares in financial year 2015 / 16.

7. By written circulation on 30 June 2016, the termination agreement with Mr William Waggott was adopted with effect from 30 June 2016.

8. At an extraordinary meeting on 4 July 2016, convened at short notice due to its urgency (conference call), the Supervisory Board intensively discussed the outcome of the Brexit referendum and its potential impacts on TUI AG.

9. By written circulation on 17 August 2016, we approved the increase in TUI AG's capital stock for the issue of employee shares in 2016. Following the completion of a tender process for a change in auditors and based on the recommendation of its Audit Committee, the Supervisory Board also resolved to propose the appointment of Deloitte GmbH Wirtschaftsprüfungsgesellschaft as auditors for TUI AG's consolidated and individual financial statements and all relevant interim reports for financial year 2016 / 17.

10. Supplementing the resolution adopted on 30 June 2016, we resolved by written circulation on 19 August 2016 the cash settlement of entitlements still held by Mr Waggott from the Share Awards taken over from TUI Travel PLC as at 31 August 2016. (for further details: see Remuneration Report page 127).

11. During a strategy offsite meeting on 14 and 15 September 2016, we intensively debated various key topics: apart from IT-supported customer relationship management, TUI's business model, and growth strategies for Hotels & Resorts and Cruises, we addressed challenges in source market Germany and approaches for solutions. Further topics included the sale of Specialist Group, potential business in China, the airline platform OneAviation and the impact of Brexit. On the second day, we comprehensively debated the five-year plan submitted by the Executive Board. We also discussed crisis management, the Security, Health & Safety structure, and were given a report on the potential impact of the revision of the European Package Tour Directive. The Supervisory Board then approved the acquisition of three Boeing 787-9s for Northern Region and the refinancing of the existing 2014 / 19 high-yield bond worth € 300.0 m. The Supervisory Board moreover debated Executive Board matters and D&O insurance.

In addition to the Supervisory Board meetings, a further workshop with internal and external experts on 6 November 2015 was devoted to selected issues of German and British corporate governance.

## Meetings of the Presiding Committee

The Presiding Committee is in charge of various Executive Board issues (including succession planning, new appointments, terms and conditions of service contracts, proposals regarding the remuneration system). It also prepares the meetings of the Supervisory Board.

Members of the Presiding Committee:

Until 9 February 2016:
- Prof. Klaus Mangold (Chairman)
- Andreas Barczewski
- Carmen Riu Güell
- Sir Michael Hodgkinson
- Frank Jakobi
- Maxim Shemetov
- Anette Strempel

From 9 February 2016:
- Prof. Klaus Mangold (Chairman)
- Peter Bremme
- Carmen Riu Güell
- Sir Michael Hodgkinson
- Frank Jakobi
- Alexey Mordashov
- Anette Strempel
- Ortwin Strubelt

1. At a joint meeting of the Presiding Committee and Nomination Committee on 20 October 2015, we discussed the determination of the personal performance factors for the annual performance bonus for financial year 2014 / 15 and the reference indicators for the Executive Board's annual performance bonus for financial year 2015 / 16. The Presiding Committee also discussed the appropriateness of Executive Board remuneration and pensions. The Committee furthermore prepared the Supervisory Board's proposal to the AGM for a new system of Supervisory Board remuneration.

2. At a meeting on 27 October 2015, convened at short notice due to the urgency of the issue (conference call), the Presiding Committee intensively debated the status of preparations and the latest developments regarding the IPO of Hapag-Lloyd AG in the light of the current situation in container shipping.

3. At its meeting on 9 December 2015, the Presiding Committee discussed target achievement for the Executive Board's annual performance bonus for financial year 2014 / 15 and the appropriateness of Executive Board remuneration and pensions. It also debated adjustment of the targets for the composition of the Supervisory Board.

4. At its meeting on 8 February 2016, the Presiding Committee discussed in particular Executive Board matters, the activities of the Supervisory Board and its committees after the 2016 AGM and the status proceedings Erzberger versus TUI AG on EU conformity of the German Industrial Co-Determination Act.

5. At its meetings on 9 May 2016, the Presiding Committee debated business allocation for the Executive Board following the sale of Hotelbeds Group and the potential early redemption of the share awards rolled over from TUI Travel PLC to TUI AG.

6. At an extraordinary meeting on 29 June 2016, convened at short notice due to the urgency of the issue, the Presiding Committee discussed the impact of the Brexit vote of 23 June 2016. It also prepared the extraordinary Supervisory Board meeting on 4 July 2016, dealing with the same issue, and discussed Executive Board matters.

7. On 16 August 2016, using the written circulation process and based on relevant documents, the Presiding Committee adopted a recommendation for a resolution to be adopted by the Supervisory Board about the early cash settlement of Mr Waggott's entitlements from the share awards rolled over from TUI Travel PLC as at 31 August 2016.

8. On 14 September 2016, we prepared, inter alia, the resolution to be adopted by the Supervisory Board on the cash settlement of the entitlements still held by Mr Long and Mr Burling from the share awards rolled over from TUI Travel PLC as at 30 September 2016.

### AUDIT COMMITTEE

Members of the Audit Committee:

Until 9 February 2016:

- Prof. Edgar Ernst (Chairman)
- Andreas Barczewski
- Prof. Klaus Mangold
- Michael Pönipp
- Minnow Powell
- Prof. Christian Strenger
- Ortwin Strubelt

From 9 February 2016:

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

The Audit Committee held six ordinary meetings in the financial year under review. It elected Prof. Edgar Ernst as Chairman of the Audit Committee on 19 February 2016 using the written circulation procedure. For the tasks and the advisory and resolution-related issues discussed by the Audit Committee, we refer to the comprehensive report on page 20.

### NOMINATION COMMITTEE

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

Members of the Nomination Committee:

Until 9 February 2016:

- Prof. Klaus Mangold (Chairman)
- Carmen Riu Güell
- Sir Michael Hodgkinson
- Maxim Shemetov

From 9 February 2016:

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

1. Regarding the joint meeting of the Nomination Committee and Presiding Committee on 20 October 2015, we refer to the above notes in the section on the Presiding Committee.

2. At its meeting on 8 December 2015, the Nomination Committee discussed the future composition of the Supervisory Board and the composition of the shareholder side.

3. At its meeting on 8 February 2016, the Nomination Committee reflected on the work of the Supervisory Board and its committees after the AGM 2016.

## STRATEGY COMMITTEE

The Strategy Committee was established on 9 February 2016 by resolution of the Supervisory Board. Its task is to advise the Executive Board in developing and implementing the corporate strategy. Apart from the Committee members, the meetings of the Strategy Committee are regularly attended by Sir Michael Hodgkinson, and by Ms Riu Güell on hotel issues.

The members of the Strategy Committee are:
- Peter Long (Chairman)
- Angelika Gifford
- Valerie Gooding
- Frank Jakobi
- Prof. Klaus Mangold
- Alexey Mordashov

1. At its first meeting on 6 May 2016, the Strategy Committee planned its mode of operation and defined the scope and topics for further meetings. It also discussed potential focus areas for the Supervisory Board's strategy offsite meeting in September. Detailed consideration included a strategy for customer growth and options for Specialist Group.

2. At its meeting on 30 June 2016, the Strategy Committee devoted full attention to the possible repercussions of the Brexit vote and its potential impacts on TUI AG and its competitors. In a joint discussion with the Executive Board, the Strategy Committee furthermore discussed the proposed topics for the Supervisory Board's strategy offsite meeting in September 2016 and opportunities to re-invest the proceeds from the sale of Hotelbeds Group. Apart from the strategic measures relating to the turnarounds in Germany and France, the debate also focused on TUI AG's customer relationship management.

## INTEGRATION COMMITTEE

The Integration Committee was established by the Supervisory Board for a period of two years after the completion of the merger (until December 2016). Its task is to advise and oversee the Executive Board during the integration process required after the merger. In this regard, the Supervisory Board had resolved to additionally seek external advice, above all in monitoring the synergies, from Deloitte auditors whose experts also regularly attended the meetings of the Integration Committee.

Members of the Integration Committee:

Until 9 February 2016:
- Prof. Klaus Mangold (Chairman)
- Sir Michael Hodgkinson (Deputy Chairman)
- Prof. Edgar Ernst
- Frank Jakobi
- Minnow Powell
- Prof. Christian Strenger

From 9 February 2016:
- Prof. Klaus Mangold (Chairman)
- Sir Michael Hodgkinson (Deputy Chairman)
- Prof. Edgar Ernst
- Valerie Gooding
- Frank Jakobi
- Coline McConville

1. At its meeting on 8 December 2015, the Integration Committee initially discussed a sharpening of its focus on aspects of cultural integration. It also reviewed the status of synergy effects and the progress of implementation of the global brand strategy oneBrand towards unified branding. The debate also focused on the results of the TUIgether employee survey and measures to be derived from the survey.

2. On 10 May 2016, the Integration Committee discussed a report on integration progress and the status of the synergy effects. It also intensively debated a presentation by Deloitte on best practices in following up on merger synergies. Following a continuation of the debate about ways to culturally embed the measures derived from the TUIgether employee survey, the Committee's deliberations focused on the remuneration structure for the Group's top management level. The Committee also obtained information about the successful brand migration in the Netherlands.

3. At its meeting on 13 September 2016, the Integration Committee discussed the report on integration progress and the status of synergy effects as well as TUI Group's new unified HR strategy. It also received reports about the status of numerous HR activities that had been initiated or planned.

## Corporate Governance

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

For the DCGK – conceptually founded, inter alia, on the German Stock Corporation Act – we issued an unqualified declaration of compliance for 2016 pursuant to section 161 of the German Stock Corporation Act, together with the Executive Board. By contrast, there are some deviations from the UK CGC due for the most part to the different concepts underlying a one-tier management system for a public listed company in the UK (one-tier board) and the two-tier management system comprised of Executive Board and Supervisory Board in a stock corporation based on German law.

More detailed information on corporate governance, the declaration of compliance for 2016 pursuant to section 161 of the German Stock Corporation Act and the declaration on deviations from the UK CGC is provided in the Corporate Governance Report in the present Annual Report, prepared by the Executive Board and the Supervisory Board (page 117), as well as on TUI AG's website.

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

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, audited the annual financial statements of TUI AG prepared in accordance with the provisions of the German Commercial Code (HGB), as well as the joint management report of TUI AG and TUI Group, and the consolidated financial statements for the 2015 / 16 financial year prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), and issued their unqualified audit certificate. The above documents, the Executive Board's proposal for the use of the net profit available for distribution and the audit reports by the auditors had been submitted in good time to all members of the Supervisory Board. They were discussed in detail at the Audit Committee meeting of 6 December 2016 and the Supervisory Board meeting of 7 December 2016, convened to discuss the annual financial statements, where the Executive Board provided comprehensive explanations of these statements. At those meetings, the Chairman of the Audit Committee and the auditors reported on the audit findings, having determined the key audit areas for the financial year under review beforehand with the Audit Committee. Neither the auditors nor the Audit Committee identified any weaknesses in the early risk detection and internal control system. On the basis of our own review of the annual financial statements of TUI AG and TUI Group and the joint management report, we did not have any grounds for objections and therefore concur with the Executive Board's evaluation of the situation of TUI AG and TUI Group. Upon the recommendation of the Audit Committee, we approve the annual financial statements for financial year 2015 / 16; the annual financial statements of TUI AG are thereby adopted. We comprehensively discussed the proposal for the appropriation of profits with the Executive Board and approved the proposal in the light of the current and expected future financial position of the Group.

## Executive Board, Supervisory Board and committee membership

The composition of the Executive Board and Supervisory Board as at 30 September 2016 is presented in the tables on pages 114 for the Supervisory Board and 116 for the Executive Board.

In financial year 2015 / 16, the composition of the boards changed as follows:

### SUPERVISORY BOARD

Upon the close of the 2016 Annual General Meeting, Prof. Christian Strenger, Maxim Shemetov and Minnow Powell stepped down from the Supervisory Board. At the same Annual General Meeting, Angelika Gifford, Peter Long and Alexey Mordashov were elected for a term of five years. Members re-elected for a term of five years were Carmen Riu Güell, Prof. Edgar Ernst, Sir Michael Hodgkinson and Prof. Klaus Mangold.

The term of all employee representatives on the Supervisory Board also ended at the close of the 2016 Annual General Meeting. Rüdiger Witt stepped down from the Supervisory Board at that date. Apart from Mag. Stephan Weinhofer, replacing Rüdiger Witt on the Supervisory Board in his first term of office, all previous employee representatives were re-elected for a five-year term on 10 February 2016.

We were shocked and saddened by the sudden passing of Wilfried Rau on 30 March 2016. Wilfried Rau had been an employee representative on our Supervisory Board, representing senior managers, since December 2014. With Mr Rau, we have lost a highly esteemed, circumspect colleague who knew the Company in many different facets. Mr Rau had earned great merit in many different managerial positions at TUI AG and in the Group. We miss his experience, his advice and his sense of humour even in turbulent times. The Supervisory Board, the Executive Board and the employees of TUI AG will honour his memory.

With effect from 13 June 2016, Wolfgang Flintermann was appointed as a member of the Supervisory Board by the court of registration to represent employees in senior management.

### PRESIDING COMMITTEE

Mr Shemetov stepped down from the Supervisory Board and therefore also the Presiding Committee at the close of the Annual General Meeting 2016. In addition to re-electing the remaining previous shareholder representatives, the Supervisory Board elected Mr Mordashov as the fourth shareholder representative on the Presiding Committee. The new employee representatives on the Presiding Committee are Mr Strubelt and Mr Bremme, alongside the re-elected employee representatives Ms Strempel and Mr Jakobi. Mr Barczewski has no longer been a member of the Presiding Committee since it was newly formed on 9 February 2016.

### AUDIT COMMITTEE

At the close of the Annual General Meeting 2016, Prof. Strenger and Mr Powell also stepped down from the Audit Committee. Apart from re-electing the previous Audit Committee members, the Supervisory Board elected Ms McConville, Ms Kong and Dr Hirschel as new members after the close of the AGM 2016.

### INTEGRATION COMMITTEE

After the close of the 2016 AGM, the Supervisory Board re-elected the existing Integration Committee members and elected Ms Gooding and Ms McConville to replace Prof. Strenger and Mr Powell, who stepped down from the Integration Committee at the close of the 2016 AGM.

## NOMINATION COMMITTEE

Apart from re-electing the previous members of the Nomination Committee, the shareholder representatives on the Supervisory Board elected Mr Mordashov as a new Nomination Committee member after the close of the 2016 AGM.

## EXECUTIVE BOARD

With effect from 15 October 2015, Dr Elke Eller was appointed as a member of the Executive Board and Labour Director. The term of office of Peter Long, Joint-CEO on the Executive Board, ended at the close of the 2016 AGM. Since that date, Friedrich Joussen has been sole Chairman of the Executive Board. With effect from 30 June 2016, William Waggott also stepped down from the Executive Board.

The Supervisory Board thanks all Executive Board and Supervisory Board members who left in financial year 2015 / 16 for their cooperation in a spirit of constructive confidence.

Hanover, 7 December 2016

On behalf of the Supervisory Board:

Prof. Klaus Mangold
Chairman of the Supervisory Board

# AUDIT COMMITTEE REPORT

## Dear Shareholders,

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

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

The Audit Committee's sphere of responsibility was extended substantially following the introduction of the Audit Reform Act (AReG) in Germany. Among other things, this means that the Audit Committee is now responsible for selecting external auditors within the framework of a public invitation to tender. The selected auditors are then required to be put forward by the Supervisory Board to the Annual General Meeting for appointment. Following the appointment by the Annual General Meeting, the Supervisory Board formally commissions the external auditors with the task of auditing the annual financial statements and consolidated financial statements and reviewing the quarterly interim reports.

The Audit Committee is elected by the Supervisory Board directly after the annual general meeting and consists currently of the following eight Supervisory Board members:

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

There are no personnel changes to report in the composition of this committee since the last election.

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

The Audit Committee has six regular meetings a year; additional meetings can also be held on specific topics. No extraordinary meetings were held during the period under review. The meeting dates and agendas are based both on the Group's reporting cycle and on the Supervisory Board agendas.

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

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

- Director of Group Financial Accounting
- Director of Group Audit
- Director of Group Compliance & Risk
- Director of Corporate Finance

Auditors PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) have also been invited to meetings on relevant topics. Wherever required, additional members of TUI Group senior management and operational management have been asked to attend Audit Committee meetings, as have external consultants.

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

The members took part in the Audit Committee meetings as shown in the table on page 11. One Audit Committee resolution was taken by circular decision.

## Selection of a new auditor for TUI AG and the TUI Group

In order to implement the regulations of the AReG governing the rotation of auditors, a public invitation to tender was conducted in the period under review in order to select a new auditor for TUI AG and the TUI Group. Determining the key process steps and the key decisions was the responsibility of the Audit Committee Chairman. In its planned meetings, the entire Audit Committee received regular reports on the progress of the process by its Chairman and discussed the further steps to be taken. Assistance in implementing the process at an operational level was provided by the company.

In keeping with EU regulations on public invitations to tender, the entire process was fair, transparent and non-discriminatory.

By announcing the planned invitation to tender in the Federal Gazette, German and international auditing firms were initially requested to communicate their interest in participating in the selection process. From these initial applicants, a number of minimum criteria were then used to reduce the remaining applicants to a shortlist of five.

In the following stage, these remaining five applicants were provided with extensive documentation to enable them to submit a comprehensive written offer. In addition, all competitors were given the opportunity to clarify any remaining questions in a joint questions and answers session with various Group representatives. Of the five applicants, four ultimately submitted written offers which were made available to the Audit Committee.

All written offers were then analysed and evaluated by the Audit Committee Chairman and by representatives of the main business areas and Group functions in order to ensure maximum objectivity during the selection process. Based on this analysis, the fourth-ranked applicant was eliminated.

On the basis of the written offer, the evaluation found the remaining three applicants to be virtually of equal merit, so that all three applicants were invited by the Audit Committee to present their offer and the key team members in person. In addition to the Audit Committee Chairman, these presentations were attended by the aforementioned representatives of the main business areas and Group functions, and by the CFO as a guest. The evaluation of the presentations established a clear ranking of the applicants, leading the third-ranked candidate to be eliminated.

Up to this point, the quality of the service offered took clear precedence over any cost aspects. With the final two applicants, the cost-related aspects of the offer were then discussed. In their final form, the offers did not vary significantly as regards cost.

Accordingly, at the end of the procedure, the Audit Committee recommended to the Supervisory Board that it put forward Deloitte GmbH Wirtschaftsprüfungsgesellschaft to the Annual General Meeting as the new Group auditors. As well as this preference, the second-placed applicant was presented to the Supervisory Board as an alternative. The Supervisory Board subsequently resolved to accept this recommendation.

## Reliability of financial reporting and monitoring of accounting process

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

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

In order to monitor accounting, we examined individual aspects in great detail. In addition, the accounting treatment of key balance sheet items were reviewed, in particular goodwill, advance payments for tourism services, pension provisions and other provisions.

In consultation with the auditors, we made certain that the assumptions and estimates underlying the balance sheet were appropriate. In addition, any material legal disputes and key accounting issues arising from the operating businesses were assessed by the Audit Committee.

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

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

The status of the introduction of a new ERP system in the UK was also assessed in detail during our meetings. In this connection, we received regular reports on the progress of the implementation and asked pointed questions about any delays and, in particular, risks with regards to Group reporting.

Another aspect of our work was OneAviation, a project for optimising the operational efficiency and cost-base of the Group-owned airlines. Given the strategic importance of the airline in the tourism value chain, we received an explanation of the key factors driving cost advantages for certain competitors compared with TUI airlines and about the intended measures for optimising these. In a further meeting, we also had the management representatives in question inform us about the legal and operational organisational structure Technology.

In addition to the operational flight business, however, we also examined TUI's investing activity in the following areas: Airlines, Hotels & Resorts, Cruises and IT. We were given an explanation of how the investments were prioritised, including how they were distributed throughout the Group areas. One particular point in connection with the investment analysis was the disposal of the Hotelbeds Group in September 2016.

The valuation logic with regard to the Hapag-Lloyd AG shares was also discussed in detail on numerous occasions in the course of the financial year. Here, particular attention was given to the impairment booked in the financial year owing to the price performance of Hapag-Lloyd shares.

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

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

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

## Effectiveness of internal controls and the risk management system

The Audit Committee recognises that a robust and effective system of internal control is critical to achieving reliable and consistent business performance.

To fulfil its legal obligation to examine the effectiveness of internal controls and the risk management system, the Audit Committee is informed regularly about their current status and also about the further development of them.

The Group has continued to evolve its internal control framework which is underpinned by the COSO concept. In recent years the larger businesses in the Group have completed documentation of their main financial processes and regular testing by management of the key financial controls as a matter of routine is the next area of development. Some initial testing was conducted in 2016 and management intend to increase the volume of testing in 2017.

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

As stated on page 49 of the risk report, the Audit Committee receives regular reports on the performance and effectiveness of the risk management system. The Risk Oversight Committee is an important management committee within the Group and we are satisfied that there is appropriate, active management of risk throughout the Group.

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

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

For added comfort, the effectiveness of the Group Audit department was examined by third-party experts during the current financial year. This review concluded that the Group Audit department has already reached leading-edge maturity.

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

## Whistleblower systems for employees in the event of compliance breaches

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

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

## Examination of auditor independence and objectivity

In December 2015, the Audit Committee recommended to the Supervisory Board that it propose the existing auditors PwC to the Annual General Meeting as auditors for financial year 2015 / 16 as well.

Following the commissioning of PwC as auditors by the Annual General Meeting in February 2016, the Supervisory Board appointed PwC with the task of auditing the 2015 / 16 annual financial statements and reviewing the interim financial statements.

The Chairman of the Audit Committee discussed with PwC in advance the audit plan for the annual financial statements as at 30 September 2016, including the key areas of focus for the audit and the main companies to be audited from the Group's perspective. Based on this, the Audit Committee firmly believes that the audit has taken into account the main financial risks to an appropriate degree and is satisfied that the auditors are independent and objective in how they conduct their work. The audit fees were discussed and we are confident that the amount in question is justified.

Based on the regular reporting by the auditors, we have every confidence in the effectiveness of the external audit. This outlook is confirmed by an internal efficiency review, conducted during the period under review, of the collaboration with PwC. In addition to the positive outcome of this review, all participants declared that, were it not for the obligation to rotate auditors, they would have been able to envisage continuing to work with PwC without any restrictions.

Owing to the rotation requirement, PwC will no longer serve as auditors. PwC has been the external auditor for the TUI Group for over 20 years and the Audit Committee has always held their work to be of high quality. We would like to take this opportunity to thank PwC for their many years of trusted service.

In order to ensure the independence of the auditors, any non-audit services to be performed by the auditors must be submitted to the Audit Committee for approval before commissioning. Depending on the amount involved, the Audit Committee makes use of the option of delegating the approval to the company. The Audit Committee Chairman is only involved in the decision once a specified cost limit has been reached. Insofar as the auditor has performed services that do not fall under the Group audit, the nature and extent of these have been explained to the Audit Committee. This process complies with the guideline regarding the approval of non-audit services which came into effect at the beginning of financial year 2015 / 16, and it also takes into account the requirements from the AReG regulations on prohibited non-audit services and on limitations of the scope of non-audit services.

In financial year 2015 / 16, these non-audit services accounted for 37 % of the auditor's overall fee of € 19.5 million. These non-audit services primarily include services in connection with the preparation of the Hotelbeds Group disposal, the Travelopia Group disposal and the issue of a bond.

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

Hanover, 6 December 2016

Prof. Edgar Ernst
Chairman of the Audit Committee

01

# MANAGEMENT REPORT*



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

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

*Winter in Canada means busy season for TUI's shareholding Sunwing. They need help to fly so many North American tourists to the Caribbean. Perfect! Some TUI aircraft in Europe would otherwise be hibernating on the ground.*


READ MORE ABOUT AIRCRAFT LEASING IN THE MAGAZINE UNDER "HEAD FOR THE HEAT"

# GOALS AND STRATEGY

## Our Strategy

As the world's leading integrated tourism group, we operate in all stages of our customers' holiday experience, from marketing and sales to aviation, destination services and accommodation.

The core of our offering will be our own hotel and cruise brands.

Growth in our hotel and cruise brands is enabled and de-risked by our strength in direct distribution and our direct customer relationships, creating a virtuous circle for sustainable growth.

We have a resilient model, prepared for current and future changes.

The strength of our integrated model is the monitoring and selective control of all stages in the value chain. This allows us to mitigate capacity risks, respond quickly and flexibly to market changes and actively shape overall situations and markets.

We take advantage of global economies of scale resulting from our size and international scope to deliver competitive advantages and have defined six scaling platforms as a framework: TUI Brand, Aviation, Hotels, Cruises, Destination Services, IT.

We use our local strength at crucial points in the competitive arena, to be close to customers and their individual needs.

We believe a clear focus on sustainability differentiates us from the competition and generates value.

We have a common vision and values to achieve our goals.

## How we do it – our Business Model

*We have a leading position as an integrated tourism company.*

### MARKETING & SALES

- Scale – over 20 million* customers per annum, over 13 million customers flying on Group airlines
- Strength in direct distribution and direct customer relationships – over 70 % of holidays distributed directly to the customer through our websites, shops and call centres
- Flexibility – approx. 75 % of our source market accommodation requirement sourced from third parties

* Including Canada and Russia joint ventures

### AVIATION

- Scale – approx. 150 aircraft, transporting our customers to their destination
- Flexibility – approx. 95 % of aircraft are leased, current average remaining lease life of approx. 4 years, with additional capacity from third party airlines
- Efficiency – OneAviation programme to develop one virtual airline, short haul fleet renewal commences 2018

### DESTINATION SERVICES

- Scale – over 11 million customers per annum with operations in over 100 destinations
- Unique destination services bring the TUI brand alive and bring us even closer to our customers

### ACCOMMODATION

- Scale – growing portfolio of Group hotels and cruise ships (currently over 7 million customers per annum) with a further 10 million customers staying in third party hotels, which are mostly exclusive to our source markets
- Wide distribution funnel – over 50 % of our hotel customers purchase via our source markets, with significant incremental volumes from other markets
- Flexibility – balanced ownership model, with around half of our hotels being managed or franchised, utilisation of joint venture partnerships to reduce investment risk, and a balanced destination portfolio

*Integration benefits our customers and our performance, and gives us a strong competitive advantage.*

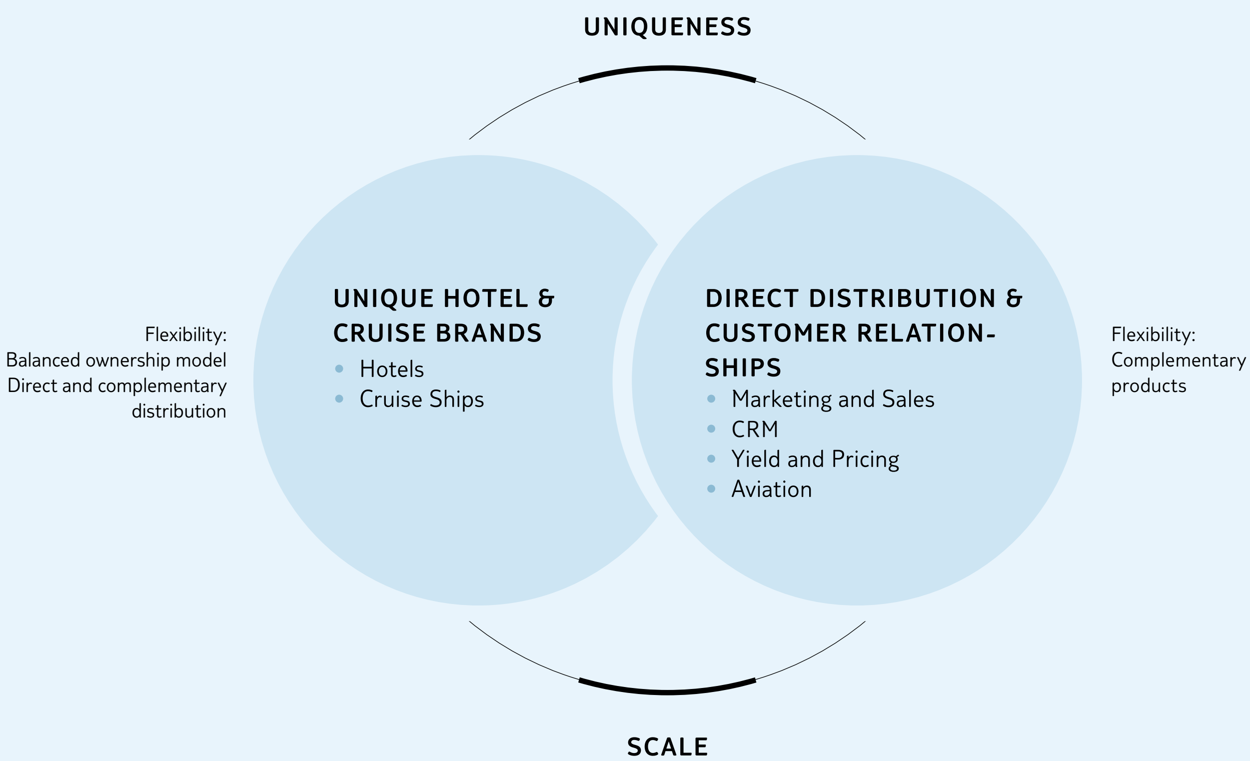
**CUSTOMER PERSPECTIVE**

- Easy & convenient
- Seamless customer experience
- Unique & exclusive products
- TUI as most trusted travel partner
- Mobile service and inspiration

**TUI PERFORMANCE PERSPECTIVE**

- Growth in differentiated hotels and cruises enabled and de-risked by direct customer relationship
- Superior occupancy rates, yield management & risk mitigation
- Local freedom to actively shape markets
- Flexibility to respond to changing environment

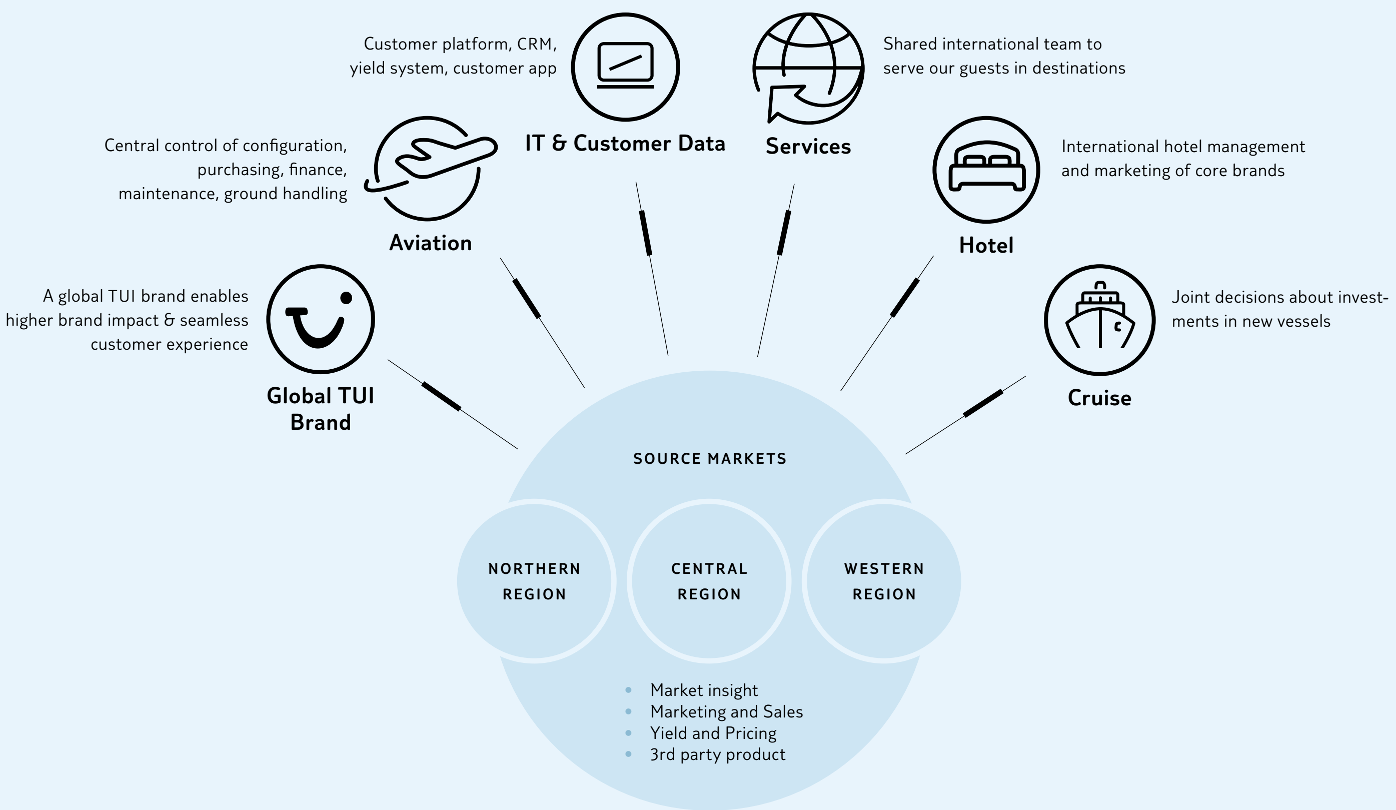
*Growth in our hotel and cruise brands is enabled by our strength in direct distribution and by our direct customer relationships, creating a virtuous circle for sustainable growth.*



*We have a flexible model with a balanced portfolio of businesses, which further enhances our resilience.*

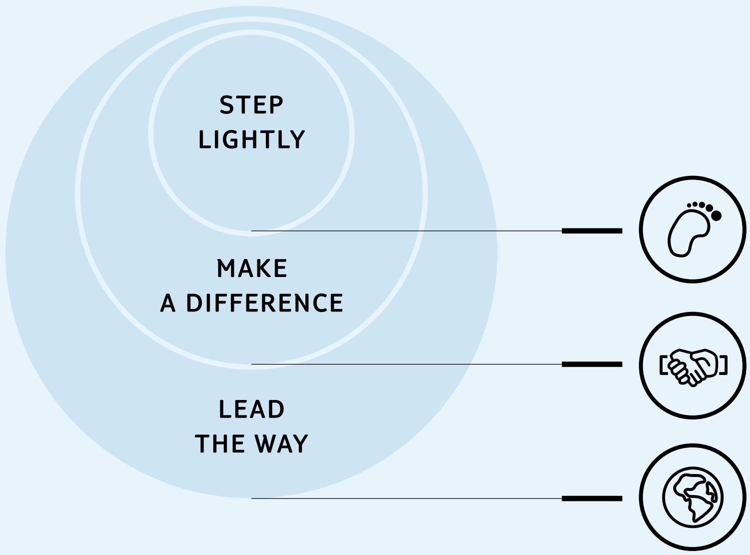
- Ability to remix flight and hotel capacity and adapt cruise itineraries
- Balanced source market & destination portfolio
- Strong long-term supplier relationships
- Risk assessed ownership / management model, including joint venture partners

*We combine local relevance with global scale.*



*We believe a clear focus on sustainability differentiates us from the competition and generates value.*

2015 – 2020
"Better Holidays, Better World"




Reducing the environmental impact of holidays through our own operations

Creating positive change for people and communities through our value chain and customers

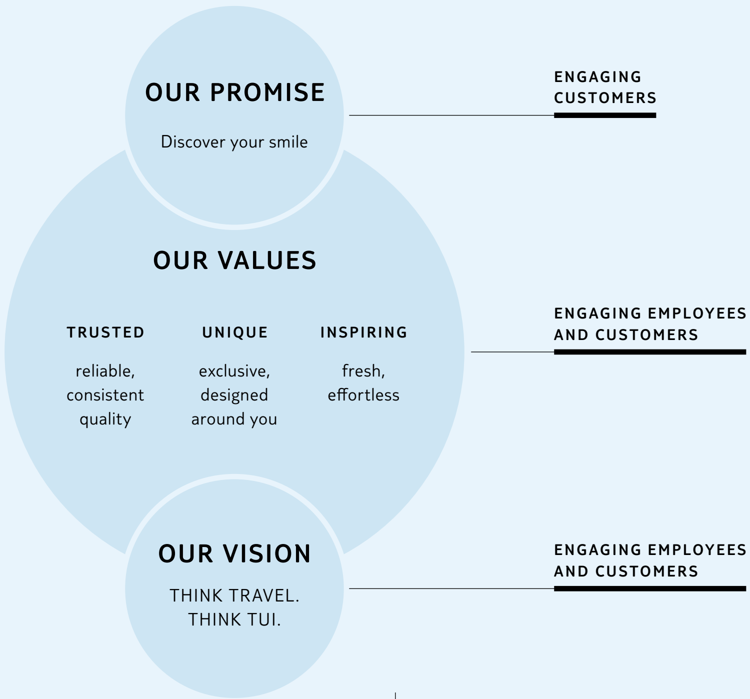
Pioneering sustainable tourism to influence the wider industry and beyond

The ambitious 2020 sustainability strategy "Better Holidays, Better World" is built around three core pillars to help shape the future of sustainable tourism.

*See from page 93*

*We have a common vision and values to achieve our goals.*

Our vision, values and customer proposition form the basis of our action and our attitude – both inside and outside.




Discovering the world's diversity, exploring new horizons, experiencing foreign countries and cultures: travel broadens people's minds. At TUI we create unforgettable moments for customers across the world and make their dreams come true. We are mindful of the importance of travel and tourism for many countries in the world and people living there. We partner with these countries and help shape their future – in a committed and sustainable manner.

## What we want to achieve – roadmap for growth

1
**GROWTH IN HOTELS AND CRUISE BRANDS**

2
**DIRECT CUSTOMER RELATIONSHIPS**

3
**BALANCE SHEET STRENGTH & FLEXIBILITY**

### 1. GROWTH IN HOTEL AND CRUISE BRANDS

Accommodation (hotels and cruise ships) is the key differentiator in the customer holiday experience and the key driver of satisfaction and retention rates. We will therefore deliver growth through scaling up our unique hotel and cruise brands.

Growth will be focused on our core, unique brands – these brands have been selected due to their strong resonance with their respective customer segments (and therefore competitive advantage) and their ability to be further scaled.

Following the merger with TUI Travel PLC in December 2014 we targeted circa 60 additional hotels by 2018 / 19. Having delivered 18 openings and two repositioned hotels to date (30 September 2016), we expect approximately 40 to 45 further openings by the end of 2018 / 19 plus further repositioned hotels. Taking into account the different ownership models and our current portfolio, we expect each new hotel on average to deliver an additional € 2 m underlying EBITA.

## RIU

**3 to 5 star hotels at the best beach destinations in the world, offering holidays from family all inclusive fun to romance and luxury**

CURRENT PORTFOLIO (2015/16)
- 94 hotels delivering € 318 m underlying EBITA
- Occupancy 90 %
- ROIC 26 % (excl. goodwill)

OPENINGS/LAUNCHES
- 2014/15: Aruba, Mauritius, Bulgaria, Berlin
- 2015/16: Dominican Republic, Sri Lanka, New York, Dublin
- Winter 2016/17: Jamaica
- 2017/18: Mexico (Costa Mujeres)

## ROBINSON

**Premium clubs in excellent beach or mountain locations**

CURRENT PORTFOLIO (2015/16)
- 24 clubs delivering € 39 m underlying EBITA
- ROIC 13 %

OPENINGS/LAUNCHES
- 2014/15: Tunisia
- 2015/16: Greece, Turkey
- Summer 2017: South East Asia

## TUI SENSATORI

**Modern luxury holidays designed to fuel the senses**

CURRENT PORTFOLIO (2015/16)
- 10 resorts with 5 in Group hotels

OPENINGS/LAUNCHES IN GROUP HOTELS
- 2014/15: Cyprus, Turkey
- 2015/16: Dominican Republic
- Summer 2017: Rhodes

## TUI BLUE

**Premium hotels in first class locations with strong regional influences**

CURRENT PORTFOLIO (2015/16)
- TUI Blue launched with two repositioned hotels this year

OPENINGS/LAUNCHES
- 2015/16: Turkey (repositioned)
- Winter 2016/17: Tenerife (new), Germany and Austria (repositioned)
- Summer 2017: Croatia (new), Italy (new), (repositioned), Germany (repositioned)

## TUI MAGIC LIFE

**All inclusive club holidays in top beachside locations**

CURRENT PORTFOLIO (2015/16)
- 13 clubs

OPENINGS/LAUNCHES
- 2014/15: Ibiza, Rhodes

## TUI SENSIMAR

**Stylish 4 to 5 star hotels designed for adults with space and relaxation in mind**

CURRENT PORTFOLIO (2015/16)
- 48 resorts with 20 in Group hotels

OPENINGS/LAUNCHES
- In Group hotels – 2014/15: Portugal, Croatia
- In third party hotels – Winter 2016/17: Lanzarote, Cape Verde, Mauritius
- In third party hotels – Summer 2017: Sardinia, Greece, Tunisia

## TUI FAMILY LIFE

**The ultimate environment for a family holiday to remember**

CURRENT PORTFOLIO (2015/16)
- 29 resorts with 17 in Group hotels

OPENINGS/LAUNCHES IN THIRD PARTY HOTELS
- Winter 2016 / 17: Thailand, Spain
- Summer 2017: Sardinia, Croatia, Spain, Bulgaria

## THOMSON CRUISES

**UK leader in all inclusive fly cruise**

CURRENT PORTFOLIO (2015/16)
- Five ships
- Underlying EBITA € 61 m

OPENINGS/LAUNCHES
- Summer 2016: TUI Discovery
- Summer 2017: TUI Discovery 2
- Summer 2018: additional ship from TUI Cruises (Mein Schiff 1)
- Summer 2019: additional ship from TUI Cruises (Mein Schiff 2)

## TUI CRUISES

**German speaking, premium all inclusive cruises**

CURRENT PORTFOLIO (2015/16)
- Five ships
- Share of underlying EAT € 100 m
- ROIC 9 % / ROE 36 %

OPENINGS/LAUNCHES
- Summer 2016: Mein Schiff 5
- Three newbuild ships launched in each of the next three years (2017 to 2019)

## HAPAG LLOYD

**Luxury and expedition cruises**

CURRENT PORTFOLIO (2015/16)
- Four ships
- Underlying EBITA € 30 m

OPENINGS/LAUNCHES
- Two new expedition ships launch in Spring and Autumn 2019

**Cruise growth** will continue to focus on the underpenetrated European cruise market, with capacity expansion in TUI Cruises and modernisation of our UK and luxury / expedition cruise brands.

- The European cruise market remains underpenetrated relative to the US, but has the right demographics – age, wealth, leisure time available – for future growth

*See from page 73*

+ 3

Mein Schiff newbuilds over the next three years

- TUI Cruises successfully launched Mein Schiff 5 in July 2016 and will add three further newbuilds over the next three years, delivering around € 25 m to € 30 m share of earnings after tax for each new ship.

- Thomson Cruises is continuing its path of modernisation, with the launch of TUI Discovery in Summer 2016 and the delivery of TUI Discovery 2 in Summer 2017. In addition, Mein Schiff 1 and Mein Schiff 2 will move to the UK from the TUI Cruises fleet in 2018 and 2019. We expect each new ship to deliver around € 25 m of underlying EBITA per annum, at constant currency rates.

- Following the successful turnaround of Hapag-Lloyd Cruises to profitability this year, we have announced the modernisation and expansion of the expedition cruise fleet, with two newbuilds arriving in 2019, delivering around € 15 m additional EBITA per annum per ship.

**Growth** will focus on destinations with strong margin and ROIC characteristics, and where we deliver a competitive advantage.

- Year round destinations deliver higher occupancy, less seasonality in earnings and therefore higher returns.

- Year round destinations also add the opportunity to sell to other source markets outside TUI Group – for example, a significant proportion of Riu's revenues in the Caribbean come from the US.

- We can leverage off our existing strong presence in long haul and other year round destinations – on a hotel basis, over 50 % of our current Hotels & Resorts portfolio is in year round destinations, and around 40 % of our source market customers travel to year round destinations (defined as Canaries, Cape Verde, North Africa and long haul).

> 50 %

of our current Hotels & Resorts portfolio is in year round destinations

- Our 787 fleet enables us to take more customers, more efficiently to long haul destinations. In our source markets in 2015 / 16, around 15 % of our accommodated customers stayed in long haul destinations. We expect our long haul package holiday customers to grow by over 500,000 over the next three years.

We will continue to build on our **direct relationship with the customer in resort.**

Our unique Destination Services bring the TUI brand alive, operating in more than 100 destinations with access to over 11 million customers, managing airport transfers, excursions and resort services. In 2015 / 16 we completed the separation of our Destination Services business from Hotelbeds Group (which has subsequently been sold) and have so far delivered synergies worth € 10 m as a result of service integration and cost efficiency measures. Growth in Destination Services will be driven by an increase in the proportion of differentiated excursions (currently around 20 %) and in sales of excursions through online and mobile channels. In addition, we are continuing to expand our network, with the launch of a destination management company in the USA in November 2016, and exploring the potential for launches in other countries.

**Balanced ownership model** for new and existing hotels and cruise ships, with clear investment hurdle rates.

- We have a balanced ownership model for hotels, with just under 50 % of our hotels under management or franchise.
- Investments will be made in differentiating products where there are pockets of growth and scarcity of supply.
- Our strong joint venture relationships bring significant operational benefits for our hotels and cruises, as well as reducing levels of invested capital on a consolidated basis.
- We target ROIC (based on our Group definition) of at least 15 % on average for our new investments (compared with our Group weighted average cost of capital of 7.5 %).

See from page 46

21.3 %

ROIC Cruises in 2015 / 16

- Our Hotels & Resorts and Cruises segments deliver ROIC significantly in excess of their cost of capital. In 2015 / 16 our Hotels & Resorts segment delivered ROIC of 12.3 % (versus segment weighted average cost of capital of 6.5 %) whilst Cruises delivered ROIC of 21.3 % (versus segment weighted average cost of capital of 7.5 %).

## 2. DIRECT CUSTOMER RELATIONSHIPS

Growth in our hotel and cruise brands is enabled and de-risked through the strength of our direct distribution and customer relationships, creating a virtuous circle for sustainable growth. This also gives us a competitive advantage compared with other hotel and cruise companies with lower levels of direct distribution.

**Capitalising on the strength of the TUI brand on a global scale –** One global distribution brand offers significant opportunities in terms of growth potential, consistency of customer experience, digital presence, operational efficiency and competitive strength. In the long run, it is our objective that there will be one distribution brand wherever it is reasonable, but we will still ensure that we maintain our local roots. We launched our brand migration successfully in the Netherlands in October 2015, achieving strong unaided awareness within weeks of the TUI brand in this source market. The TUI brand roll-out has also taken place in France, with Belgium and Nordics following in Autumn 2016 and the UK to follow in late 2017. Brand migration will be funded from ongoing operational efficiency and additional revenues.

Netherlands

**Successfull brand migration in October 2015**

**More direct, more online sales –** Having a direct relationship with the customer enables delivery of a more personalised experience and gives us a strong competitive advantage. In 2015 / 16, 72 % of our source market customers booked through our direct channels (up two percentage points on prior year), with 43 % booking online (up two percentage points on prior year). In Northern Region (UK and Nordics) we now sell over 60 % of our holidays online. Further progress has also been made in Central Region (47 % controlled, 15 % online) and Western Region (70 % controlled, 52 % online).

**Leveraging our direct relationship** with the customer using our global IT platforms – IT is at the heart of TUI, providing the technology solutions required to deliver the TUI Group strategy and help our customers create unforgettable moments. Internet and mobile use among our customers has increased rapidly, so at TUI we're using technology to create ever-more innovative and engaging ways to showcase our great destinations and inspire people's holiday choices, with best in class, more personal digital experiences.

MyTUI App

has been rolled out to ten countries and has had over 3.5 m downloads.

- **Customer App –** The "MyTUI App" is at the heart of our mobile vision. Through this inspirational, effortless technology, we will drive customer behaviour change that will lead to the creation of our biggest digital sales channel of holidays, flights and ancillaries. It will be key to customer acquisition and retention, winning new customers and bringing back old customers time after time. In three years, we have moved from a standing start to multiple awards for our TUI App, which has been rolled out to ten European countries and has had over 3.5 million downloads. The App provides a rich, immersive experience and not only helps customers find and pay for the holiday they want, but allows them to explore their destination, discover places to visit and book unforgettable trips and excursions. We have built the App in such a way that it needs only minimal development to amend it to suit each new country as it is rolled out. This also makes it easier to enhance and update functionality as customers' expectations develop. The roadmap is always evolving due to fast paced technology driving product innovation and business requirements. Currently in development we have inspirational video content, hotel check in, live travel information, social feed, transfer times, native ancillary sales, interactive maps, restaurant booking, and virtual reality, to mention just a few.

- **Group Marketing Platform –** We are investing in transformational capabilities that improve how we interact with our customers, by using what we know about them to provide more timely and personalised customer service and marketing. This is aimed at delivering a better customer experience, driving higher levels of engagement and conversion, and creating business value from every customer interaction by encouraging up-selling, cross-selling and rebooking. We have made significant progress to date, and have rolled out a common marketing platform and programmes to a number of key source markets, aimed at supporting customers through their holiday search and their post-booking holiday countdown. In addition we are trialling other innovations such as a Concierge Service in the UK, providing an enhanced level of service for selected customer segments.

personalised

customer service and marketing

- **Yield Management –** We have developed our own bespoke yield solution to automate the management and pricing of holidays in response to changes in demand and costs throughout the day, seven days a week. This solution contains forecasting algorithms and business logic tailored for the dynamics of the tour operating industry, where flights and hotels are sold simultaneously. It also includes a sophisticated user interface which provides high levels of transparency and control to support the yield process. Following success in the UK, where the first phase went live in 2013 with full rollout in 2014, the solution was rolled out to France in 2015 and to the Nordic market in 2016. We are now targeting a rollout in further markets including Germany over the next 24 months.

**Driving operational efficiency improvements –** We will continue to drive efficiency improvements across our source markets, including the following:

- In Germany, we remain focused on further increasing market share through a wider holiday offering, further increasing controlled and online distribution, and delivering operational efficiency improvements.
- In France we have completed the acquisition of Transat's French tour operations for an enterprise value of € 55 m. The acquisition will enhance our existing turnaround plans for this source market, through market consolidation and significant margin potential. It is expected to bring underlying EBITA margin in France to around 2.5 %.
- In addition, we are continuing to deliver our efficiencies through our OneAviation programme, through the central control of configuration, purchasing, finance, maintenance and ground handling.

**Enhancing top line growth by adding further flexibility for our customers –** We utilise technology to deliver additional top line growth with minimal capacity commitment, such as third party flying and dynamic packaging.



**Market leading positions which we will continue to grow –** Based on the growth levers outlined above, we target profitable top line growth ahead of the market, or around 3 % CAGR Group turnover growth, at constant currency rates. In 2015 / 16 we delivered brand turnover growth (including turnover from our Canadian and TUI Cruises joint ventures) of 2.4 % and turnover growth of 1.4 % at constant currency rates, with underlying growth offset partly by the impact of the lower demand for Turkey within some of our source markets. Customer volumes from our source markets (excluding Canada and Russia) were broadly flat in the year at 19.2 million, with strong growth in the UK and Netherlands offset by volume declines in Germany and the Nordics, mainly as a result of lower demand for Turkey not being fully offset by increased demand to other destinations.

Market leading position

**which will continue to grow**

### 3. BALANCE SHEET STRENGTH & FLEXIBILITY

We have a strong and flexible balance sheet, which enables and supports further growth. We will maintain our rigorous focus on financial discipline, to deliver optimal allocation of capital.

**Strong operating cash flow provides finance for investments and dividend –** We generate a significant level of operating cash flow. Together with the proceeds from the Hotelbeds Group disposal, the high level of operating cash generation will help to finance future investments in growth as well as continuing to generate an attractive dividend yield.

**Focus on meaningful investments aligned with our strategy –** Our capital expenditure reflects the reinvestment of proceeds in transformational growth following the disposal of Hotelbeds Group. Our priorities for capital allocation are investments in unique hotel and cruise brands. We also continue to allocate capital to strengthen the core of our business – for example, through synergetic acquisitions such as Transat – as well as maintaining a strong and flexible balance sheet to support further growth. We have clear ROIC hurdle rates for new investments, as outlined above, and material investments are approved at Board level.

€ 100 m

merger synergies to be delivered by the end of 2016 / 17

**Deliver merger synergies –** At the time of the merger with TUI Travel PLC we outlined € 100 m of merger synergies to be delivered by the end of 2016 / 17 from corporate streamlining (€ 50 m), occupancy improvement in Group hotels (€ 30 m) and the integration of Destination Services with our Tourism businesses (€ 20 m). By the end of 2015 / 16 we delivered € 80 m of these synergies, and we are on track to deliver the remaining € 20 m to be delivered by the end of 2016 / 17. In addition, we targeted a reduction in our underlying effective tax rate as a result of the more efficient tax grouping in Germany. This was achieved immediately after the merger, with the Group's underlying effective rate now at 25 %.

**Deliver against financial targets with a view to achieving re-rating –** Our focus on rating will allow us to obtain advantageous financing conditions and continue to ensure access to debt capital markets. This has already delivered benefits. Moody's upgraded TUI to Ba2 in April 2016, and Standard & Poor's revised its outlook on TUI from Stable to Positive in February 2016. We have delivered against our financial targets for 2015 / 16 with a leverage ratio of 3.3 times (target 3.5 to 2.75 times), and an interest coverage ratio of 4.8 times (target 4.5 to 5.5 times interest). For 2016 / 17 our financial targets have been tightened – leverage ratio target is 3.25 to 2.5 times, and interest cover target is 4.75 to 5.75 times.

**Committed to paying an attractive dividend –** We are committed to delivering superior returns for our shareholders. Our growth strategy will enable this. We will propose a dividend to our shareholders of 63 cents in respect of 2015 / 16, reflecting 14.5 % growth in the base dividend (in line with underlying EBITA growth at constant currency) plus the additional 10 % outlined at the time of the merger in 2014. For 2016 / 17 we expect to pay a dividend based on growth in underlying EBITA at constant currency (calculated off the base dividend of 58 cents in 2015 / 16).

**Continue to maximise value of non-core businesses –** We successfully completed the disposal of Hotelbeds Group for a total cash consideration of € 1.2 bn in September 2016, realising significant value for this non-core business. We are in the process of disposing Travelopia and continue to hold our investment in Hapag-Lloyd AG for sale.

€ 1.2 bn

**disposal of Hotelbeds Group**

# PRINCIPLES UNDERLYING TUI GROUP

## Structure and business model

TUI GROUP

| TOURISM | | | | ALL OTHER SEGMENTS* |
|---|---|---|---|---|
| SOURCE MARKETS | HOTELS & RESORTS | CRUISES | OTHER TOURISM | |
| • *Northern Region*<br>• *Central Region*<br>• *Western Region* | • *Riu*<br>• *Robinson*<br>• *Other Hotels* | • *TUI Cruises*<br>• *Hapag-Lloyd Cruises* | • *Central tourism functions*<br>• *Corsair* | • *Corporate Center*<br>• *Real Estate* |

* As at 30 September 2016 and the financial stake in Hapag-Lloyd AG (Container shipping) are held for sale

TUI Group is the world's leading tourism business, consisting of a large portfolio of strong tour operators, 1,600 travel agencies and leading online portals, five tour operator airlines with around 150 aircraft, more than 300 hotels with around 214,000 beds, 14 cruise liners and incoming agencies in all major holiday destinations around the globe. This integrated offering enables us to provide our 20 million customers with an unparalleled holiday experience.

## TUI AG parent company

TUI AG is TUI Group's parent company with registered offices in Hanover and Berlin. It holds directly, via its affiliates, indirect interests in the principal Group companies conducting the Group's operating business in individual countries. Overall, TUI AG's group of consolidated companies comprised 417 direct and indirect subsidiaries at the balance sheet date. A further 13 affiliated companies and 27 joint ventures were included in TUI AG's consolidated financial statements on the basis of at equity measurement.

### ORGANISATION AND MANAGEMENT

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

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

### EXECUTIVE BOARD AND GROUP EXECUTIVE COMMITTEE

As at the balance sheet date, the Executive Board of TUI AG consisted of the CEO and four other Board members.

→ *For details on Executive Board members see page 116*

A Group Executive Committee was set up in order to manage TUI Group strategically and operationally. As at 30 September 2016, the Committee consisted of eleven members who meet under the chairmanship of CEO Friedrich Joussen.

## TUI Group structure

TUI Group's tour operating business is clustered into three regions, each with a source market alignment. The three regions make up the Tourism Division together with Hotels & Resorts, Cruises and Other Tourism.

### NORTHERN REGION

The Northern Region segment comprises the tour operators, airlines and cruise business in the UK, Ireland and the Nordics. In addition, the Canadian strategic venture Sunwing and the joint venture TUI Russia have been included within this segment. In preparation for the disposal of a large part of Specialist Group, Ski has been reclassified from the segment to Northern Region. The prior year's numbers have been restated accordingly.

### CENTRAL REGION

The Central Region segment comprises the tour operators and airlines in Germany and the tour operator activities in Austria, Switzerland and Poland.

### WESTERN REGION

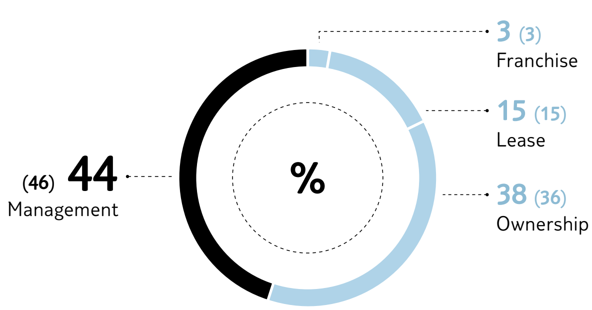
The tour operators and airlines in Belgium and the Netherlands and the tour operators in France are included within the segment Western Region.

### HOTELS & RESORTS

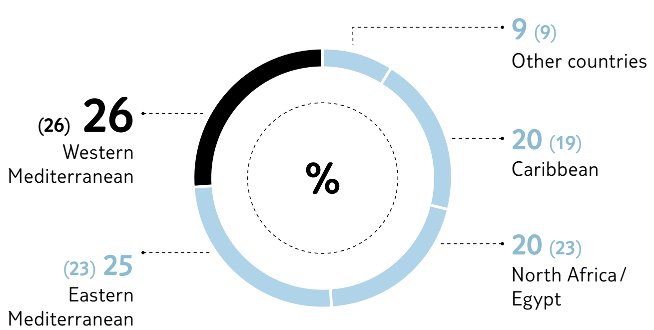
The Hotels & Resorts segment comprises all Group-owned hotels and hotel companies in TUI Group. The hotel activities of the former TUI Travel Sector have also been allocated to Hotels & Resorts. The segment comprises majority participations in hotels, joint ventures with local partners, stakes in companies giving TUI a significant influence, and hotels operated under management contracts.

In financial year 2015 / 16, Hotels & Resorts comprised a total of 303 hotels with 213,503 beds. 279 hotels, i.e. the majority, are in the four- or five-star category. 44 % were operated under management contracts, 38 % were owned by one of the hotel companies, 15 % were leased and 3 % of the hotels were managed under franchise agreements.

**FINANCING STRUCTURE TUI HOTELS & RESORTS**




**GROUP HOTEL BEDS PER REGION**




In brackets: previous year

**CATEGORIES OF HOTELS & RESORTS**

| Hotel brand | 3 stars | 4 stars | 5 stars | Total hotels | Beds | Main sites |
|---|---|---|---|---|---|---|
| Riu | 4 | 48 | 42 | 94 | 86,184 | Spain, Mexico, Caribbean, Cape Verdes, Portugal, Morocco |
| Robinson | – | 20 | 4 | 24 | 15,342 | Spain, Greece, Turkey, Switzerland, Austria |
| Other hotel companies | 20 | 114 | 51 | 185 | 111,977 | Spain, Greece, Turkey, Egypt |
| **Total** | **24** | **182** | **97** | **303** | **213,503** | |

As at 30 September 2016

### RIU

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

### ROBINSON

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

#### OTHER HOTEL COMPANIES

Other hotel companies include TUI Blue Hotels as well as the brands Grupotel, Iberotel, Magic Life and the other hotels previously managed in the former TUI Travel sector. Many of the hotels are operated as tour operator concepts, e.g. Sensatori, Sensimar and Family Life.

### CRUISES

The Cruises segment consists of Hapag-Lloyd Cruises and the joint venture TUI Cruises.

#### HAPAG-LLOYD CRUISES

Hamburg-based Hapag-Lloyd Cruises holds a leading position in the German-speaking market with a fleet of four ships in the luxury and expedition cruise segments.

Its flagships are the five-star-plus vessels Europa and Europa 2. They were awarded this category by the Berlitz Cruise Guide and are the world's only ships to be recognised in this way, in the case of Europa for the seventeenth time in succession, and in the case of Europa 2 for the fourth consecutive time. Europa primarily cruises on world tours, while her sister ship Europa 2 takes shorter but combinable routes. The Hanseatic is used, among other destinations, for expedition cruises to the Arctic and Antarctic. It is the world's only five-star passenger vessel in the highest Polar class. The Bremen, a four-star vessel – also awarded the highest Polar class – is another expedition ship travelling to similar destinations. Three of the ships are owned and one is chartered.

#### TUI CRUISES

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

### OTHER TOURISM

Other Tourism comprises central functions such as destination services, IT, aviation control and the French airline Corsair.

### ALL OTHER SEGMENTS

Apart from the segments described above, the accounts include the category All other segments. This includes, in particular, the corporate centre functions of TUI AG and the interim holdings, as well as the Group's real estate companies.

The financial stake in Hapag-Lloyd Container Shipping has been carried since December 2014 under financial assets available for sale as defined by IFRS 5. The IPO of Hapag-Lloyd AG took place in November 2015. As TUI did not take part in the associated cash capital increase and Hapag-Lloyd shares were sold in the framework of the IPO, TUI's stake in Hapag-Lloyd AG declined from 13.9 % to 12.3 % as at 30 September 2016.

### DISCONTINUED OPERATIONS

Following the divestments made in financial year 2015 / 16 – the sale of LateRooms Group in October 2015 and Hotelbeds Group in September 2016 – TUI Group also intends to sell Specialist Group. The Specialist Group was reclassified as discontinued operation. The sector pools the activities of specialist tour operators and had been managed as a separate entity since the merger between TUI AG and TUI Travel PLC at the end of December 2014. The portfolio of Specialist Group is to be sold in one transaction from the autumn of 2016 with the exception of two tour operator brands. Crystal Ski and Thomson Lakes & Mountains will not be included in the sale as they have strong synergies and are closely associated with core business Tourism. They have been integrated into TUI UK's business.

### RESEARCH AND DEVELOPMENT

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

# Value-oriented Group management

## Management system and Key Performance Indicators

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

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

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

Our definition of EBITA is earnings before net interest result, income tax and impairment of goodwill excluding losses on container shipping and excluding the result from the measurement of interest hedges. While EBITA includes amortisation of intangible assets, it does not carry the result of our investment in container shipping as our stake in Hapag-Lloyd AG is a pure equity investment without an operating character.

In order to explain and measure TUI Group's operating performance, we use underlying EBITA adjusted for gains on disposal of investments, restructuring expenses, primarily scheduled amortisation of intangible assets from purchase price allocations and other expenses for and income from one-off effects.

In the framework of our growth strategy, we aim to achieve an underlying EBITA CAGR of at least 10 % over the years to financial year 2018 / 19 (on a constant currency basis).

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

*Information on operating performance indicators is provided in the sections on "Business performance by segment" and "Environment" and in the Report on Expected Developments .*

## Cost of capital

**COST OF CAPITAL (WACC)**

| % | Tour operator 2015 / 16 | Hotels 2015 / 16 | Cruises 2015 / 16 | TUI Group 2015 / 16 |
|---|---|---|---|---|
| Risk-free interest rate | 0.50 | 0.50 | 0.50 | 0.50 |
| Risk adjustment | 9.40 | 6.03 | 6.35 | 8.42 |
| Market risk premium | 6.00 | 6.00 | 6.00 | 6.00 |
| Beta factor[1] | 1.5659 | 1.0042 | 1.0591 | 1.4025 |
| **Cost of equity after taxes** | **9.90** | **6.53** | **6.85** | **8.92** |
| Cost of debt capital before taxes | 4.18 | 2.20 | 2.72 | 3.63 |
| Tax shield | 1.00 | 0.55 | 0.85 | 0.89 |
| **Cost of debt capital after taxes** | **3.18** | **1.65** | **1.87** | **2.74** |
| Share of equity[2] | 42.65 | 70.11 | 68.54 | 50.70 |
| Share of debt capital[2] | 57.35 | 29.89 | 31.46 | 49.30 |
| **WACC after taxes[3]** | **6.00** | **5.00** | **5.25** | **5.75** |
| Tax rate | 24.00 | 25.00 | 31.00 | 24.62 |
| **Cost of equity before taxes** | **12.55** | **8.46** | **9.61** | **11.50** |
| **Cost of debt capital before taxes** | **4.18** | **2.20** | **2.72** | **3.63** |
| Share of equity[2] | 42.65 | 70.11 | 68.54 | 50.70 |
| Share of debt capital[2] | 57.35 | 29.89 | 31.46 | 49.30 |
| **WACC before taxes[3]** | **7.75** | **6.50** | **7.50** | **7.50** |

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



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

## ROIC and economic value added

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

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

**ROIC AND VALUE ADDED TUI GROUP**

| € million | | **2015/16** | 2014/15 restated |
|---|---|---|---|
| Equity | | 3,248.2 | 2,417.4 |
| plus interest bearing financial liability items | | 3,769.1 | 3,500.0 |
| less financial assets | | 3,137.2 | 2,522.3 |
| plus purchase price allocation | | 300.5 | 572.9 |
| **Invested Capital** | | **4,180.6** | **3,968.1** |
| Invested Capital Prior year | | 3,968.1 | 3,544.7 |
| Seasonal adjustment[1] | | 500.0 | 500.0 |
| **Ø Invested capital[2]** | | **4,574.4** | **4,256.4** |
| **Underlying EBITA** | | **1,000.5** | **953.3** |
| **ROIC** | % | **21.87** | **22.40** |
| Weighted average cost of capital (WACC) | % | 7.50 | 10.00 |
| **Value added** | | **657.4** | **527.7** |

[1] Adjustment to net debt to reflect a seasonal average cash balance
[2] Average value based on balance at beginning and year-end

For TUI Group, ROIC was down by 0.5 percentage points on the previous year at 21.9 %. With the cost of capital at 7.5 %, this meant positive economic value added of € 657.4 m (previous year € 527.7 m).

# RISK REPORT

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

The current financial year has seen the risk management framework which evolved last year after the merger become further embedded in the organisation and within the business planning cycle. The major enhancement in the current financial year was the upgrade of the risk and control software and unification of the two previous legacy systems into a single application, which has made reporting processes more efficient as a result. Our risk governance framework is set out below.

## Risk governance framework

### STRATEGIC DIRECTION AND RISK APPETITE

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

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

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

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

**RISK MANAGEMENT SYSTEM**

**EXECUTIVE BOARD**

Direct & Assure

- *Overall responsibility for risk management*
- *Determine strategic approach to risk*
- *Approve risk policy including risk appetite and set tone at the top*
- *Agree how principal risks are managed, mitigated & monitored*
- *Review the effectiveness of the risk management system*

**RISK OVERSIGHT COMMITTEE (ROC)**

Review & Communicate

- *Formulate risk strategy and policy*
- *Discuss and propose risk appetite*
- *Summarise principal risks*
- *Ensure effective monitoring*
- *Embed risk within business planning*

**GROUP RISK TEAM**

Support & Report

**BUSINESSES & FUNCTIONS**

Identify & Assess

- *Understand key risks*
- *Review key risks and mitigation*
- *Manage and monitor risks*
- *Report on risk status*

**RISK CHAMPION COMMUNITY**

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

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

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

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

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

## RISK MANAGEMENT PROCESS

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

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

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

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

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

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

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

## IMPACT ASSESSMENT

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

* Budgeted underlying EBITA for the financial year ended 30 September 2016

## LIKELIHOOD ASSESSMENT

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

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

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

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

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

### AD HOC RISK REPORTING

Whilst there is a formal process in place aligned to reporting on risks and risk management on a quarterly basis, the process of risk identification, assessment and response is continuous and therefore if required risks can be reported to the Executive Board outside of the quarterly process if events dictate that this is necessary and appropriate. Ideally such ad hoc reporting is performed by the business or function which is closest to the risk, but it can be performed by the Group Risk team if necessary. The best example of ad hoc risk reporting in the year was an early assessment ahead of the UK referendum of the possible risks posed by a vote in favour of the UK leaving the EU ("Brexit"). A Brexit Steering Committee has now been created to monitor developments in this area.

→ *See "Overall risk assessment" on page 62 for further details*

### RISK MATURITY & CULTURE

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

### ENTITY SCOPING

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

### EFFECTIVENESS OF RISK MANAGEMENT SYSTEM

The Executive Board regularly reports to the Audit Committee of the Supervisory Board on the performance and effectiveness of the risk management system, supported by the ROC and the Group Risk team. Additionally, the Audit Committee receives assurance from Internal Audit through its programme of audits over a selection of principal risks and business transformation initiatives most critical to the Group's continued success. Finally, the Group's auditor assess the risk management system in accordance with section 317 (4) of the German Commercial Code.

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

## Principal risks

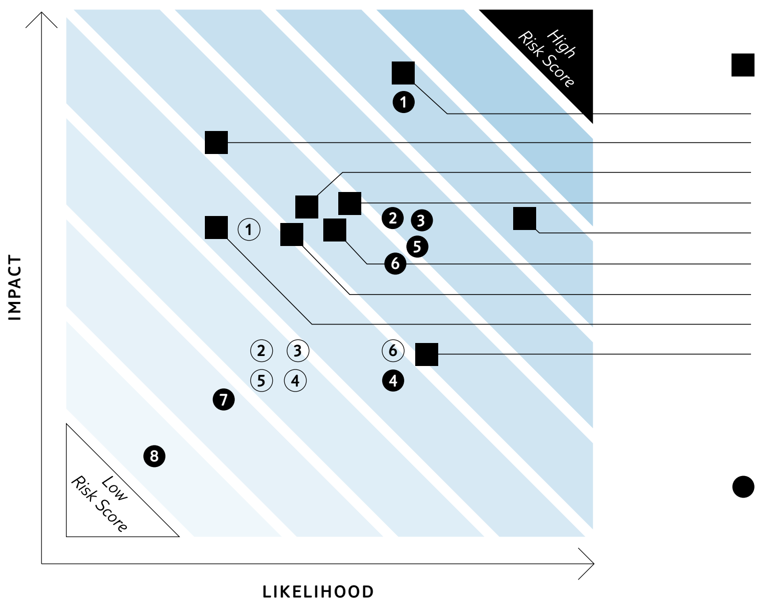
There are some principal risks which are inherent to the tourism sector and necessarily face all businesses in the sector. For these inherent risks we have controls, processes and procedures in place as a matter of course which serve to mitigate each risk to either minimise the likelihood of the event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

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

In the heat map the assessment criteria used are shown on page 52 below. Note that the quantitative impact assessment is based on the budgeted underlying EBITA for the financial year ended 30 September 2016.

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

## RISK POSITIONS




### INHERENT RISKS

**CURRENT RISK POSITION**

*Macroeconomic Risks*
*Health & Safety*
*Seasonal Cash Flow Profile*
*Competition and Consumer Preferences*
*Destination Disruptions*
*Input Cost Volatility*
*Legal & Regulatory Compliance*
*Joint Venture Partnerships*
*Supply Chain Risk*

### ACTIVE RISKS

**CURRENT RISK POSITION** **TARGET RISK POSITION**

1 *IT Development & Strategy*
2 *Brand Change*
3 *Growth Strategy*
4 *Integration & Restructuring Opportunities*
5 *Sustainable Development*
6 *Information Security*
7 *Talent Management*
8 *Corporate Streamlining*

**CURRENT RISK POSITION**

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

**TARGET RISK POSITION**

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

## Principal risks – Inherent to the sector

**NATURE OF RISK**

### DESTINATION DISRUPTION RISK

Providers of holiday and travel services are exposed to the inherent risk of incidents affecting some countries or destinations within their operations. This can include natural catastrophes such as hurricanes or tsunamis; outbreaks of disease such as Ebola; political volatility as has been seen in Egypt and Greece in recent years; the implications of war in countries close to our source markets and destinations; and terrorist events such as the tragic incident in Tunisia last year and in Turkey in January 2016.

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

**MITIGATING FACTORS**

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

| NATURE OF RISK | MITIGATING FACTORS |
| --- | --- |
| | • We always assume some level of destination disruption each year when setting financial plans and targets, so that we are able to cope with a "normal" level of disruption without it jeopardising achievement of our targets. |
| **MACROECONOMIC RISKS** | |
| Spending on travel and tourism is discretionary and price sensitive. The economic outlook remains uncertain with different source markets at different points in the economic cycle. Furthermore, terrorist incidents in source markets can influence the overall demand for overseas travel in those markets. Consumers are also waiting longer to book their trips in order to assess their financial situation.<br><br>There is the risk that fluctuations in macroeconomic conditions in our source markets will impact on the spending power of our customers which could impact on our short-term growth rates and lead to margin erosion.<br><br>Furthermore, changes in macroeconomic conditions can have an impact on exchange rates which, particularly for the £ / € rate, has a direct impact on the translation of non-euro source market results into euros, the reporting currency of our Group. | • Many consumers prioritise their spending on holidays above other discretionary items.<br>• Creating unique and differentiated holiday products which match the needs of our customers.<br>• Leveraging our scale to keep costs down and prices competitive.<br>• Having a range of source markets so that we are not over exposed to one particular economic cycle.<br>• Expressing our key profit growth target in constant currency terms so that short term performance can be assessed without the distortion caused by exchange rate fluctuations.<br>• Promoting the benefits of travelling with a recognised and leading tour operator to increase consumer confidence and peace of mind. |
| **COMPETITION & CONSUMER PREFERENCES** | |
| The tourism industry is fast-paced and competitive with the emergence of new market participants operating new business models, combined with consumer tastes and preferences evolving all the time.<br><br>In recent years there has been an emergence of successful substitute business models such as web-based travel and hotel portals which allow end users to combine the individual elements of a holiday trip on their own and book them separately.<br><br>Consumer tastes and preferences have evolved in recent years as well, with more consumers booking their holidays online and via mobiles and tablets, and booking closer to the time of travel.<br><br>There is the risk that if we do not respond adequately to such business model disruption or if our products and services fail to meet changing customer demands and preferences, that our turnover, market share and profitability will suffer as a result. | • Our outstanding market position as a leading tourism group, the strength of our brands and our vertically integrated business model enables us to respond robustly to competitive threats.<br>• The TUI Group is characterised by the continuous development of unique and exclusive holidays, developing new concepts and services which match the needs and preferences of our customers.<br>• Our vertically integrated business model offers end-to-end customer services, from consultation and booking of holidays via flights with the Group's own airlines through to Group-owned or operated hotels, resorts and cruise ships. Vertical integration thus facilitates the development and marketing of individual, tailored holiday offerings for customers which it is difficult for competitors to replicate.<br>• Building strong and lasting relationships with our key hotel partners, which further reinforces our ability to develop new concepts exclusive to the TUI Group which competitors struggle to match.<br>• Focusing on being online throughout the whole of the customer journey – from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media. |

| NATURE OF RISK | MITIGATING FACTORS |
|---|---|
| **INPUT COST VOLATILITY** | |
| A significant proportion of operating expenses are in non-local currency and / or relate to aircraft fuel which therefore exposes the business to changes in both exchange rates and fuel prices.<br><br>There is the risk that if we do not manage adequately the volatility of exchange rates, fuel prices and other input costs, then this could result in increased costs and lead to margin erosion, impacting on our ability to achieve profit targets.<br><br>There is also the risk that if our hedging policy is too rigid, we may find ourselves unable to respond to competitive pricing pressures during the season without it having a direct detrimental impact on our market position and / or profitability. | • Ensuring that the appropriate derivative financial instruments are used to provide hedging cover for the underlying transactions involving fuel and foreign currency.<br>• Maintaining an appropriate hedging policy to ensure that this hedging cover is taken out ahead of source market customer booking profiles. This provides a degree of certainty over input costs when planning pricing and capacity, whilst also allowing some flexibility in prices so as to be able to respond to competitive pressures if necessary.<br>• Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies.<br>• Detailed information on currency and fuel hedges can be found in Note Financial Instruments of the consolidated financial statements. |
| **SEASONAL CASHFLOW PROFILE** | |
| Tourism is an inherently seasonal business with the majority of profits earned in the European summer months. Cash flows are similarly seasonal with the cash high occurring in the summer as advance payments and final balances are received from customers, with the cash low occurring in the winter as liabilities have to be settled with many suppliers after the end of the summer season.<br><br>There is the risk that if we do not adequately manage cash balances through the winter low period this could impact on the Group's liquidity and ability to settle liabilities as they fall due whilst ensuring that financial covenants are maintained. | • As our business is spread across a number of source markets within the Tourism division there are some counter-cyclical features e. g. winter is a more important season for the Nordic and Canadian source markets. Some brands, such as the UK ski brand Crystal Ski, have a different seasonality profile which helps to temper the overall profile.<br>• The business produces regularly both short term and long term cash forecasts during the year which the Treasury team use to manage cash resources effectively.<br>• Existing credit facilities are considered to be more than sufficient for our requirements and provide ample headroom.<br>• We continue to maintain high-quality relationships with the Group's key financiers and monitor compliance with the covenants contained within our financing facilities.<br>• Raising additional finance from the Capital Markets, should it be required, remains an option. |
| **LEGAL & REGULATORY COMPLIANCE** | |
| Most providers of holiday and travel services operate across a number of economies and jurisdictions which therefore exposes them to a range of legal, tax and other regulatory laws which must be complied with.<br><br>As the TUI Group is the world's leading tourism business operating from 31 source markets and providing holidays in 180 destinations, we are exposed to a range of laws and regulations with which we must comply or else risk incurring fines or other sanctions from regulatory bodies. | • Communication and strong tone from the top concerning compliance with laws and regulations.<br>• Legal Compliance Committee established to ensure appropriate oversight, monitoring and action plans and to further drive the compliance culture across the Group.<br>• Embedded legal and tax expertise in all major businesses responsible for maintaining high quality relationships with the relevant regulators and authorities.<br>• Ongoing review conducted by the Group Legal Compliance team to centrally monitor compliance with regulations and provide expert advice to local teams on specific areas. |

| NATURE OF RISK | MITIGATING FACTORS |
|---|---|
| **HEALTH & SAFETY** | |
| For all providers of holiday and travel services, ensuring the health and safety of customers is of paramount importance. This is especially so for TUI as we are the world's leading tourism business selling holidays to over 20 million customers per annum.<br><br>There is the risk of accidents or incidents occurring causing illness, injury or death to customers or colleagues whilst on a TUI holiday. This could result in reputational damage to the business and / or financial liabilities through legal action being taken by the affected parties. | • Health and safety functions are established in all businesses in order to ensure there is appropriate focus on health and safety processes as part of the normal course of business.<br>• Ongoing monitoring is conducted by the Group Health & Safety function to ensure compliance with minimum standards.<br>• Appropriate insurance policies are in place for when incidents do occur. |
| **SUPPLY CHAIN RISK** | |
| Providers of holiday and travel services are exposed to the inherent risk of failure in their key suppliers, particularly hotels. This is further heightened by the industry convention of paying in advance ("prepayment") to secure a level of room allocation for the season.<br><br>There is the risk that we do not adequately manage our financial exposure should demand drop either for individual hotels and / or for the destination in which the hotels are located and to which the tour operator still has a level of prepayment outstanding which could result in financial losses. | • Owned and joint venture partner hotels form a substantial part of our programme which reduces our inherent risk in this area.<br>• Established and embedded a robust prepayment authorisation process to both limit the level of prepayments made and ensure that they are only paid to trusted, credit-worthy counterparties.<br>• Where prepayments are made to external hoteliers this is to secure access to unique and differentiated product for which demand is inherently higher and more resilient to external events than for commodity product.<br>• Prepayments are monitored on a timely and sufficiently granular basis to manage our financial exposure to justifiable levels. |
| **JOINT VENTURE PARTNERSHIPS** | |
| It is common for tourism groups to use joint venture partnerships in some of their operations in order to reduce the risk of new ventures or to gain access to additional expertise. TUI has four significant joint ventures – Riu; TUI Cruises; Sunwing; TUI Russia & Ukraine.<br><br>There is the risk that if we do not maintain good relations with our key partners that the ventures' objectives may not remain consistent with that of the Group which could lead to operational difficulties and jeopardise the achievement of financial targets. | • Good working relationships exist with all of our main joint venture partners and they are fully aligned with and committed to the growth strategy of TUI Group. |

| NATURE OF RISK | MITIGATING FACTORS |
| --- | --- |

## Actively managed principal risks – Strategic & emerging and business change

### IT DEVELOPMENT & STRATEGY

Our focus is on enhancing customer experience by providing engaging, intuitive, seamless and continuous customer service through delivery of leading digital solutions, core platform capabilities, underlying technical infrastructure and IT services required to support the Group's overall strategy for driving profitable top-line growth.

There is a risk that we fail to keep up with or outpace the market and evolving consumer preferences, we do not concentrate our activities on the correct areas for overall business success, do not address legacy inefficiencies and complexities of our existing infrastructure, do not ensure continuity of service for critical IT systems and / or do not execute our strategy and developments in line with expectations.

If we are ineffective in our strategy or technology development this could impact on our ability to provide leading technology solutions in our markets thereby impacting on our competitiveness, our ability to provide a superior customer experience and associated impact on quality and operational efficiency. This would ultimately impact on our customer numbers, revenue and profitability.

- Developed and communicated (in conjunction with Executives, Business & IT Leadership Teams) the Group's IT Strategy which is clearly aligned to our overall business objectives and considers external factors such as the pace of technology change and internal factors such as the underlying quality required throughout IT
- Continuing to implement our online platform in order to enhance customer experience and drive higher conversion rates
- Implementing a SAP-based central customer platform to collate all information on our customers across their journey to provide a single view of the customer alongside an eCRM platform which will support strategic marketing
- Placing increased focus on ensuring continuity plans for critical IT systems are in place and regularly tested
- Defined and implemented a programme and project management framework and software delivery lifecycle management methodologies, including associated training and coaching
- Cascaded clear technology standards and associated delivery roadmaps which are linked to Group wide and source market objectives

### BRAND CHANGE

Our long term strategy is to migrate our many local tour operating brands in to one global brand, with the aim of strengthening and enhancing our competitive position, particularly in the online world. We are aiming to capitalise on the strength of the TUI brand on a global scale whilst ensuring we maintain local roots.

There is an inherent risk when executing such a large scale global brand strategy that we may not be able to maintain the benefits of local brand equity throughout the process and we recognise that such a large programme should take place with respect for the interests of all our stakeholders and existing contractual obligations.

If we do not successfully deliver against our strategy this could result in a decline in brand awareness and loyalty with associated decline in customer demand or it could impact on our ability to maximise on the opportunities facilitated by having one brand on a global scale.

- Undertaken detailed market research in each source market to assess current brand positioning and likely impact of the brand change
- Approved incremental marketing spend to raise the profile of the TUI brand locally in order to promote the benefits and to manage the expectations of our customers in relation to the future of our enhanced products and services
- Established a 'One Brand' programme team responsible for coordinating and monitoring the brand change activity across all source markets, with KPIs identified and tracked on a regular basis by both local and group colleagues and prompt corrective action taken to address issues as they arise
- Taking a phased and focussed approach to the brand change by implementing in one source market at a time. This minimises the risk at a given point in time and allows us to gain learnings from the source markets undergoing transition and implement those learnings in the next source market. Our first brand transition successfully occurred in the Netherlands in the current financial year 2015 / 16, with Nordics and Belgium source markets due to transition in financial year 2016 / 17.
- Communicating both internally & externally across multiple media channels to drive brand awareness, with further plans to increase awareness through consistent marketing in key destination airports and changing of the livery on our aircraft in order to support greater awareness of the TUI Brand

| NATURE OF RISK | MITIGATING FACTORS |
|---|---|
| **GROWTH STRATEGY** | |
| We have set ourselves a short-term target of achieving underlying EBITA CAGR of at least 10 % (see page 66). The achievement of this target is likely to require us to achieve growth in revenues of c. 3 % pa. Our focus is on achieving growth in accommodation by:<br><br>• opening new hotels;<br>• growing our powerful and exclusive international hotel concepts;<br>• continuing to expand the Cruise fleet<br><br>Additionally, we are looking to broaden our offering to customers by introducing extra flexibility into our packages, and to expand our long-haul offering by taking advantage of the capabilities of the Boeing 787 Dreamliners which we have and are due to receive via our order book. Note that availability of aircraft finance is a key assumption of our business model.<br><br>Whilst managing this expansion, we must continue to adapt to changes in consumer tastes and booking profiles, and we must continue to match our capacity to consumer demand. Asset utilisation – of aircraft, cruise ships and hotels – is critical to our financial success particularly when in a growth phase.<br><br>There is a risk that we could be unsuccessful in maximising opportunities to execute our expansion strategy. This could mean that we fail to achieve some of the initiatives we have embarked upon, which could result in us falling short against the overall growth targets we have set for the business. | • The Executive Board is very focussed on the strategy and mindful of the risks, so there is strong direction and commitment from the top.<br>• The Group Tourism Board plays an important role in co-ordinating, executing and monitoring the various growth initiatives.<br>• There are a number of initiatives underway to achieve growth which reduces the risk through diversification.<br>• Each of the business teams tasked with achieving an element of the growth strategy are still required to maintain sound financial discipline. The Group's investment criteria and authorisation processes must still be adhered to as we are not prepared to be reckless in the pursuit of growth.<br>• We continue to maintain strong relationships with the providers of aircraft finance.<br>• Monitoring of overall market conditions continues to occur so that plans can be adapted or contingency plans invoked if required. |
| **INTEGRATION & RESTRUCTURING OPPORTUNITIES** | |
| Our key rationale for the merger of TUI AG and TUI Travel PLC was growth and delivery of significant synergies and to act 'as one' wherever it makes sense to do so, maintaining local differences where the benefit of that differentiation is greater than that of harmonisation.<br><br>There are a number of restructuring projects underway across the Group as a result to enable us to achieve these opportunities. There is an inherent risk with any large restructuring programme that we face challenges in managing the complexities associated with further integrating our business, and reducing overlapping activities in order to develop a more lean and streamlined operating model.<br><br>Furthermore, the strategic review of the Group has identified businesses which would be better positioned outside of the TUI Group. One disposal (Hotelbeds Group) was successfully completed in the year, one disposal is underway (Travelopia) and further restructuring opportunities may present themselves in the future.<br><br>If we are not successful in leveraging and optimising the identified opportunities this could have a significant impact on our ability to deliver the identified benefits in line with expectations and enhance shareholder value. | • Strong project management structures exist for all of the major restructuring and disposal programmes which are underway to ensure that they are managed effectively.<br>• Project reporting tool ensures enhanced visibility of the progress of major projects as a matter of routine.<br>• Regular reporting by the major projects to the Executive Board to ensure swift resolution of any issues or to enhance co-ordination across the Group where required. |

| NATURE OF RISK | MITIGATING FACTORS |
|---|---|
| **SUSTAINABLE DEVELOPMENT** | |
| Our focus is to reduce the environmental impact of our holidays, creating positive change for people and communities and being a pioneer of sustainable tourism across the world.<br><br>There is a risk that we are not successful in driving forecast environmental improvements across our operations, that our suppliers do not uphold our sustainability standards and we fail to influence destinations to manage tourism more sustainably.<br><br>If we do not maximise our positive impact on destinations and minimise the negative impact on the environment to the extent that our stakeholders expect, this could result in a decline in stakeholder confidence, reputational damage, reduction in demand for our products and services and loss of competitive advantage.<br><br>Furthermore, if TUI Group falls short of achieving its sustainable development targets and at the same time the objectives of the UN Paris Climate Change Agreement (December 2015) are not met, this could lead to sustained long-term damage to certain of the TUI Group's current and future destinations, which could also have a material adverse effect on demand for our products and services. | • Developed and launched in 2015 the 'Better Holidays, Better World' 2020 sustainability strategy framework which includes specific targets for key sustainability indicators<br>• Established a dedicated sustainability team to work closely with the business and other stakeholders to implement the sustainability strategy<br>• Operating the most carbon efficient airlines in Europe with continued investment in new, more efficient aircraft (e. g. Boeing 787 Dreamliner) and cruise ships<br>• Implemented an environmental management system with 5 of our airlines having achieved ISO 14001 certification<br>• Increased measures to influence accommodation suppliers to achieve third party sustainability certification recognised by the Global Sustainable Tourism Council (GSTC)<br>• TUI Care Foundation expanded to focus on the achievement of 2020 target for charitable donations and sustainability projects, with particular emphasis on sustainable tourism, environmental protection and the welfare of children |
| **INFORMATION SECURITY** | |
| Our responsibility is to protect the confidentiality, integrity and availability of the data we have and the services we provide to our customers, our employees, our suppliers and service delivery teams.<br><br>There is a risk that our increasing dependence on online sales and customer care channels (web / mobile) increases our exposure and susceptibility to cyber-attacks and hacks.<br><br>If we do not ensure we have the appropriate level of security controls in place across the Group, this could have a significant negative impact on our key stakeholders, associated reputational damage and potential for financial implications. | • Renewed commitment from the Executive Board in support of key initiatives to ensure all existing and future IT systems are secure by design, that exposure to vulnerability is managed effectively, user access is sufficiently controlled and colleagues are made aware of information security risks through appropriate training<br>• Continuous review and testing of all external devices and ongoing monitoring of logs in order to identify any potential threats as and when they arise |

| NATURE OF RISK | MITIGATING FACTORS |
|---|---|
| **TALENT MANAGEMENT** | |
| Our success depends on the ability to attract and retain key talent and it relies on having good relations with colleagues.<br><br>There is a risk that we are unable to attract and retain key talent, build future leadership capability and maintain the commitment and trust of our employees. This risk is enhanced in periods of uncertainty and in areas of the business impacted by restructuring programmes.<br><br>As we approach the second anniversary of the merger which created TUI Group, our view is that we have successfully navigated our way through the initial period of post-merger concern with regards to retaining key talent. The heightened risk we perceived in this area has now gone back to normal "business as usual" levels.<br><br>If we face challenges in managing and maintaining our talent pipeline in order to deliver against our strategy, drive competitiveness and maximise on our operating performance, this could impact on our ability to future proof the Group and the associated potential for negative impact on shareholder confidence. | • Continuing to extend and embed our established talent management framework across the Group in order to engage and empower people whilst delivering results and managing performance<br>• Assessing our current organisational competence and capability against that required to maximise current and future shareholder value<br>• Ensuring succession plans are in place for all identified business critical roles, in particular emergency successors for all senior management roles, and that these plans are reviewed every six months<br>• Developed a structured and standard approach to be applied where necessary to key individuals during periods of uncertainty and/or organisational change in order to retain top talent in business critical roles<br>• Implemented a process to identify and deliver programmes targeted at high potential talent in order to drive competiveness and maximise operating performance<br>• Building our pipeline of leadership talent through our International Graduate Leadership Programme which attracts, develops and retains high quality graduates to become our future senior Commercial Leaders<br>• Driving high performance and engagement through our performance review, development plans and career planning process |
| **CORPORATE STREAMLINING** | |
| The merger of TUI AG and TUI Travel PLC has presented us with the opportunity to reduce Corporate overheads by eliminating duplicate costs.<br><br>If we do not deliver the targeted savings of € 50 m this may impact on our ability to achieve our overall underlying EBITA growth target. | • Close monitoring of the delivery of corporate streamlining cost savings to ensure that they have been achieved in line with expectations.<br>• To date 80 % of the target savings had been achieved by the end of the current financial year, with the remainder set to be achieved during financial year 2016/17. The Integration Committee which has overseen the achievement of these savings met for the last time in September 2016. |

## RISKS WITH NO IMPACT ON UNDERLYING EBITA

Impairment risk related to the investment in container shipping (Hapag-Lloyd AG).
TUI Group continues to hold a substantial investment in the container shipping company, Hapag-Lloyd AG. Significant deterioration in the market value of the investment will require an impairment to be booked in the income statement of the TUI Group – as has occurred in the financial year ended 30th September 2016. Whilst this risk has been reduced by the impairment already taken in the current and prior years, the value of the investment on our balance sheet is still material and therefore the risk continues to exist. We are committed to our plan to fully exit this investment in the medium term.

German trade tax risk.
As noted in prior years, the German tax authorities have issued guidance on how certain items of expenditure should be treated for the purposes of German trade tax. The Group continues to disagree with the German tax authorities' interpretation of this matter and it is possible that the issue will have to be litigated through the German tax courts which could take a considerable amount of time to bring it to a resolution. However due to a judgement from the fiscal court Munster on 4 February 2016, a reassessment of the trade tax risk for the purchase of hotel accommodation was undertaken in the current financial year, resulting in a separately recognised tax expense of € 37 m in the income statement.

## OVERALL RISK ASSESSMENT

Destination disruption is an inherent risk to which all providers of holiday and travel services are exposed. This disruption can take place in many forms such as natural catastrophes, outbreaks of diseases, social unrest, terrorist attacks and the implications of war in countries close to our source markets and destinations. Whilst thankfully we did not directly experience a tragic event like the Tunisia incident of June 2015, incidents in various destinations (e. g. Sharm el-Sheikh in October 2015) continue to keep the risk of disruption in some North African destinations at a high level. Furthermore, general customer concerns over safety and security in eastern Mediterranean destinations (particularly Turkey) has led to a general decline in demand across all our source markets for these destinations. Due to our geographic reach, we have been able to respond to this shift in demand by remixing capacity away from North Africa and the eastern Mediterranean towards destinations customers are currently favouring such as Spain, Canary Islands, Cape Verde etc. Despite this current shift in demand, Turkey remains an important destination for our Group. Our general policy in respect of destinations remains to follow foreign office advice in each of our source markets relating to non-essential travel to specific destinations. It is noted that in January 2017 there will be an inquest in the UK into the Tunisia incident of June 2015 and we await any industry recommendations that may arise as a result.

One of the biggest events in 2015 / 16 which has the potential to significantly alter the risk landscape of the Group is the UK referendum at the end of June which resulted in a vote for the UK to leave the EU ("Brexit"). The exchange rate volatility seen earlier in the year has continued as a result, which has an immediate impact on the translation of the sterling results from our UK business into euros, the reporting currency of the Group. The depreciation of sterling against the euro means that each £ of profit translates into a smaller euro value. The outcome of the referendum has led to a greater degree of uncertainty over the future economic performance of the UK economy. Whilst we have not seen any apparent slow-down in bookings in our UK business to date, there is a greater potential for this to occur in the medium term. Therefore for both of these reasons we see our macroeconomic risk as having increased compared to this time last year, although the strength and differentiation of our customer offering means that we are well positioned to deal with the changing macroeconomic environment. The depreciation of sterling also has a cost impact through making foreign denominated input costs in the UK business more expensive in sterling terms. Whilst the standard hedging policy we follow means that for the 2015 / 16 financial year the UK business was largely immune to these cost pressures, the risk crystallises to a greater extent in 2016 / 17, as S17 was partially hedged (c. 40 %) at the time of the referendum, if sterling stays at current levels. Normal business practice is to increase holiday prices to offset these higher input costs and protect margins, however competitive pressures may prevent prices from rising to the full extent required. The other immediate impact of the Brexit vote has been the reduction in UK interest rates and therefore discount factors applied to UK pension liabilities, which has resulted in a significant increase in the pension liability at the year-end. Whilst this does not of itself present a risk at the moment, it may do so when the next actuarial valuation is performed on the UK pension scheme if it then leads to a requirement to make higher cash pension contributions over a sustained period of time. Please see note Pension provisions and similar obligations of the financial statements for further details on the pension deficit.

The Group has created a Brexit Steering Committee to monitor developments as the political negotiations take place concerning the specifics of the terms of the UK exit from and future trading relationship with the EU and how this may affect the TUI Group's business model. At this stage it is too early to assess whether there will be any impact on areas such as flying rights, customer visa requirements or employee contracts and therefore we view Brexit as being an emerging risk around which more clarity will be gained in the future once Article 50 is triggered by the UK government and exit negotiations begin.

The completion in December 2014 of the merger between TUI AG and TUI Travel PLC has had an impact on our risk landscape by opening up new business opportunities but also introducing new risks in the pursuit of those opportunities (e. g. brand change) and in the context of the delivery of specific merger synergies. We are pleased that the post-merger integration of the Group has progressed well and at a faster pace than originally anticipated. We are on track to deliver our specific merger synergy targets, integration-related restructuring programmes are ongoing as expected, and we have successfully navigated our way through the initial period of post-merger concern with regards to retaining key talent. We therefore perceive these risks to be at a lower level than they were 12 months ago.

In the course of the restructuring of our tourism activities, we have completed the disposal in September 2016 of Hotelbeds Group and commenced the marketing of Travelopia (formerly part of Specialist

Group). Such large disposal transactions have inherent risks associated with them due to the amount of management time they require to bring them to a successful conclusion, combined with continuing obligations and customary representation and warranties.

Finally, the risk of a deterioration in the valuation of our container shipping investment crystallised again during the year and a further impairment has been taken. Whilst this has therefore reduced the risk for future periods, the value of the investment on our balance sheet is still material and therefore the risk continues to exist.

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

### VIABILITY STATEMENT

In accordance with provision C2.2 of the 2014 revision of the UK Corporate Governance Code, the Executive Board has assessed the prospect of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Executive Board considers annually and on a rolling-basis a three year strategic plan for the business as outlined earlier in the "Strategic direction and risk appetite" section. The latest three year plan was approved in October 2016 and covers the period to 30th September 2019. A three year horizon is considered appropriate for a fast-moving competitive environment such as tourism, and it is noted that the Group's current €1,535.0 m revolving credit facility, which is used to manage the seasonality of the Group's cash flows and liquidity, matures in December 2020 which is beyond the timeframe of the three year horizon. The three year plan considers cash flows as well as the financial covenants which the credit facility requires compliance with. A key assumption underpinning the three year plan and the associated cash flow forecast is that aircraft and cruise ship finance will continue to be readily available.

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

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

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

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

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

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

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

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

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

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

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

### 2. USE OF IT SYSTEMS

Bookkeeping transactions are captured in the individual financial statements of the subsidiaries of TUI AG, through local accounting systems such as SAP or Oracle. As part of the process of preparing their individual financial statements, subsidiaries complete standardized reporting packages in the Group's Oracle Hyperion Financial Management 11.1.2.3 (HFM) reporting system. HFM is used as the uniform reporting and consolidation system throughout the Group so that no additional interfaces exist for the preparation of the consolidated financial statements.

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

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

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

### 3. SPECIFIC RISKS RELATED TO GROUP ACCOUNTING

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

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

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

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

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

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

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

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

## 5. DISCLAIMER

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

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

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

# OVERALL ASSESSMENT BY THE EXECUTIVE BOARD AND REPORT ON EXPECTED DEVELOPMENT

## Comparison of actual business performance 2015 / 16 with the forecast

In the second post-merger financial year, TUI Group's performance again exceeded our original forecast, despite a challenging geopolitical framework. TUI Group's underlying EBITA rose by 5.0 % to € 1,000.5 m in financial year 2015 / 16. Excluding the negative foreign exchange effects included in these earnings due to the decline of sterling against the euro in the period under review, this corresponds to an improvement of 14.5 %. We have thus outperformed our guidance of achieving an increase in our operating result of at least 10 % on a constant currency basis.

Due to the sound operating performance and lower net one-off charges, the Group also achieved an increase in its reported EBITA, which grew by 13.0 % to € 898.1 m.

Brand turnover and TUI Group turnover grew less than expected, but delivered growth of 2.3 % and 1.4 % respectively on the prior year on a constant currency basis.

At € 691.0 m, the Group's net capital expenditure on property, plant and equipment and financial investments fell slightly short of the target of € 750.0 m. These amounts include the investments and capital expenditure of Hotelbeds Group and Specialist Group, which were sold in the period under review. The net debt of € 31.8 m carried at the end of financial year 2015 / 16 also reflected the broadly neutral net finance position for TUI Group we had expected after the agreement to sell Hotelbeds Group.

## Expected changes in the economic framework

EXPECTED DEVELOPMENT OF GROSS DOMESTIC PRODUCT

| Var. % | **2017** | 2016 |
|---|---|---|
| **World** | **+ 3.4** | **+ 3.1** |
| Eurozone | + 1.5 | + 1.7 |
| Germany | + 1.4 | + 1.7 |
| France | + 1.3 | + 1.3 |
| UK | + 1.1 | + 1.8 |
| US | + 2.2 | + 1.6 |
| Russia | + 1.1 | – 0.8 |
| Japan | + 0.6 | + 0.5 |
| China | + 6.2 | + 6.6 |
| India | + 7.6 | + 7.6 |

Source: International Monetary Fund (IMF), World Economic Outlook, October 2016

### MACROECONOMIC SITUATION

The International Monetary Fund (IMF, World Economic Outlook, October 2016) expects gross domestic product to grow 3.1 % in calendar year 2016, as economic momentum has declined in the developed economies following the UK vote to exit the European Union and growth in the United States has been weaker than expected. For 2017, the IMF expects the global economy to grow by 3.4 %. The experts believe the economy will gain some momentum again due to several factors, including an increase in investments and a better outlook for the emerging markets.

### MARKET TREND IN TOURISM

UNWTO expects international tourism to continue growing globally in this decade. For the next few years, average weighted growth of around 3 % per annum has been forecast (source: UNWTO, Tourism Highlights, 2016 edition). In the first six months of 2016, international arrivals grew by 4.0 %. UNWTO expects growth of 3.5 % to 4.5 % for calendar year 2016 (source: UNWTO, World Tourism Barometer, September 2016).

### EFFECTS ON TUI GROUP

As a leading provider of tourism services, TUI Group depends on the development of consumer demand in the large source markets in which we operate with our tour operator and hotel brands. Our budget is based on the assumptions used as a basis by the IMF to predict the future development of the global economy.

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

The expected turnover growth assumed for our tour operators in our budget for financial year 2016 / 17 is in line with UNWTO's long-term forecast. Our strategic focus is to create unified branding in our source markets, broaden our portfolio of Group-owned hotels and expand our cruise business.

## Expected development of Group turnover and earnings

### TUI GROUP

The translation of the income statements of foreign subsidiaries in our consolidated financial statements is based on average monthly exchange rates. TUI Group generates a considerable proportion of consolidated turnover and large earnings and cash flow contributions in non-euro currencies, in particular GBP, USD and SEK. Taking account of the seasonality in tourism, the development of these currencies against the euro in the course of the year therefore strongly impacts the financial indicators carried in TUI Group's consolidated financial statements. The comments on the expected development of our Group in financial year 2016 / 17 provided below are based on the assumption of constant currencies for the completed financial year 2015 / 16.

**EXPECTED DEVELOPMENT OF GROUP TURNOVER, UNDERLYING EBITA AND ADJUSTMENTS**

| € million | | Expected Development vs. PY |
|---|---|---|
| | 2015 / 16 | **2016 / 17*** |
| Turnover | 17,185 | around 3 % growth |
| Underlying EBITA | 1,001 | at least 10 % growth |
| Adjustments | 103 | approx. € 80 m cost |

* Variance year-on-year assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current group structure; guidance relates to continuing operations and excludes any disposal proceeds for Travelopia and Hapag-Lloyd AG.

### TURNOVER

We expect turnover to grow by around 3 % in financial year 2016 / 17 on a constant currency basis, primarily due to an expected increase in customer numbers and higher average prices for our large tour operators, driven by the delivery of our growth roadmap.

### UNDERLYING EBITA

TUI Group's underlying EBITA in financial year 2016 / 17 is expected to grow by at least 10 % at constant currency as we deliver our growth roadmap. Risks relate to the development of customer numbers against the backdrop of continued volatility in the economic environment in our key source markets, demand for Group-owned hotels and cruise ships and the delivery of all merger synergies.

*See Goals and Strategy section from page 28*
*See Risk Report from page 49*

### ADJUSTMENTS

For financial year 2016 / 17, we expect purchase price allocations and net one-off costs of around € 80 m, to be carried as adjustments.

### ROIC AND ECONOMIC VALUE ADDED

Due to the enhanced operating result, we expect ROIC to improve slightly in financial year 2016 / 17; depending on the development of TUI Group's capital costs, this is also expected to result in an increase in economic value added.

### DEVELOPMENT IN THE SEGMENTS

The expected development outlined below is based on current trading, our growth roadmap and the relative performance of our segments during financial year 2015 / 16. Future development depends on demand in our source markets and customer segments and on input cost curves. In our view, the benefit of our diversified business model is that developments in individual segments can be offset by opposite trends in other segments.

### SOURCE MARKETS

Based on current trading and assuming constant currency exchange rates, we would expect the source markets to deliver at least 10 % underlying earnings growth at constant currency. Besides a continuous good development in UK and a further improvement in Nordics we expect and increase of our tour operating result in France which should also benefit from the recent Transat acquisition. In addition, Germany should benefit from efficiency measures.

### HOTELS & RESORTS

We expect that the result improvement following the delivery of our growth strategy should more than offset the non-recurring gain on disposal of a Riu hotel in the past financial year. Taking into account the non-recurring gain on disposal of a Riu hotel in financial year 2015 / 16 we expect growth in Hotels & Resorts above our Group underlying EBITA guidance of at least 10 %.

#### CRUISES

Due to first-time full-year operation of Mein Schiff 5 and the planned launch of Mein Schiff 6 in financial year 2016 / 17, we expect growth in underlying EBITA in Cruises to considerably exceed our Group guidance of at least 10 %.

## Expected development of financial position

#### EXPECTED DEVELOPMENT OF GROUP FINANCIAL POSITION

| | Expected development vs. PY in % | |
|---|---|---|
| € million | 2015 / 16 | **2016 / 17** |
| Net cash capex and investments* | 642.3 | around € 1.0 bn |
| Net financial position | – 31.8 | around € 0.8 bn |

* Excl. aircraft orderbook financing

#### NET CAPEX AND INVESTMENTS

In the light of investment decisions already taken and projects in the pipeline, we expect TUI Group's net funding requirements to be around € 1.0 bn for financial year 2016 / 17 excluding aircraft orderbook finance. Capex mainly relates to the launch of new production and booking systems for our tour operators, maintenance and expansion of our hotel portfolio and the acquisition of the cruise ship Legend of the Seas. Planned investments mainly include the acquisition of the French Transat tour operation business.

#### NET FINANCIAL POSITION

At the balance sheet date, the Group's net financial position amounted to € 31.8 m net cash. Due to the planned increase in net cash capex and investments, we expect TUI Group's net debt to increase to around € 0.8 bn in financial year 2016 / 17.

## Sustainable development

#### CLIMATE PROTECTION AND EMISSIONS

Greenhouse gas emissions and the impact of these emissions on climate change pose one of the major global challenges for the tourism sector. The goals we set ourselves in our sustainability strategy "Better Holidays, Better World", launched in September 2015, include operating Europe's most carbon-efficient airlines by 2020 and defending this top position. Specific carbon emissions (g $CO_2$ / PKM) are to be reduced by 10 % by 2020. We also aim to reduce the carbon intensity of our global operations by 10 % by 2020 (against the baseline of 2013 / 14).

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

At the date of preparation of the Management Report (6 December 2016), we uphold our positive assessment of TUI Group's economic situation and outlook for financial year 2016 / 17. With its finance profile, strong brand and services portfolio, TUI Group is well positioned in the market. In the first few weeks of the new financial year 2016 / 17, the overall business performance has matched expectations.

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

In the light of our growth strategy, we have updated our medium-term guidance, aiming to deliver at least 10 % underlying EBITA CAGR in the three years to 2018 / 19. Our long-term target for TUI Group's gross capex (excluding aircraft orderbook finance) is at 3.5 % of consolidated turnover.

## Opportunity Report

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

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

#### OPPORTUNITIES FROM THE DEVELOPMENT OF THE OVERALL FRAMEWORK

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

#### CORPORATE STRATEGY

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

#### OPERATIONAL OPPORTUNITIES

We intend to improve our competitive position further by offering unique product and further expanding controlled distribution in the source markets, in particular online distribution. We also see operational opportunities arising from stronger integration of our content and tour operation business.

#### OTHER OPPORTUNITIES

We also regard a potential sale of Specialist Group and our remaining stake in container shipping as an opportunity to further improve TUI Group's key financial ratios.

# BUSINESS REVIEW

## Macroeconomic industry and market framework

### Macroeconomic development

**DEVELOPMENT OF GROSS DOMESTIC PRODUCT**

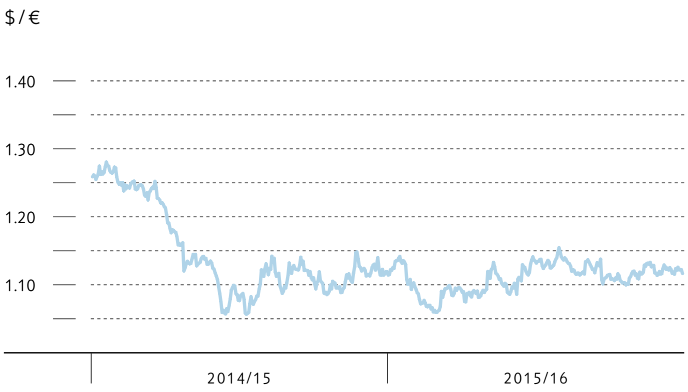
| Var. % | 2016 | 2015 |
|---|---|---|
| **World** | **+3.1** | **+3.2** |
| Eurozone | +1.7 | +2.0 |
| Germany | +1.7 | +1.5 |
| France | +1.3 | +1.3 |
| UK | +1.8 | +2.2 |
| US | +1.6 | +2.6 |
| Russia | –0.8 | –3.7 |
| Japan | +0.5 | +0.5 |
| China | +6.6 | +6.9 |
| India | +7.6 | +7.6 |

Source: International Monetary Fund (IMF), World Economic Outlook, September 2016

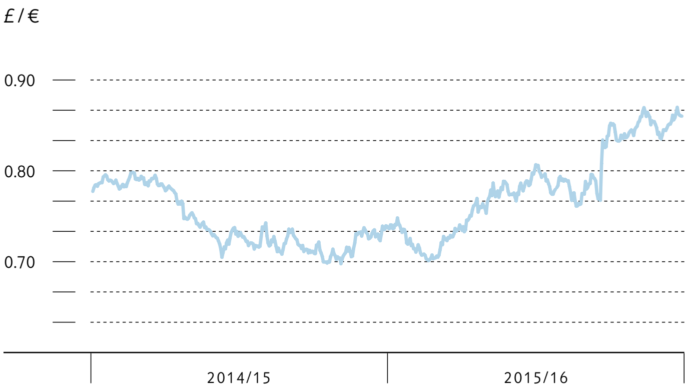
In calendar year 2016, the global economy continued to grow moderately. In its most recent outlook (IMF, World Economic Outlook, October 2016), the International Monetary Fund forecasts growth of 3.1 % for 2016, which is less than the previous year. With Britain voting to leave the European Union and growth in the United States weaker than expected, the experts expect economic momentum in the advanced economies to decline overall.

### Key exchange rates and commodity prices

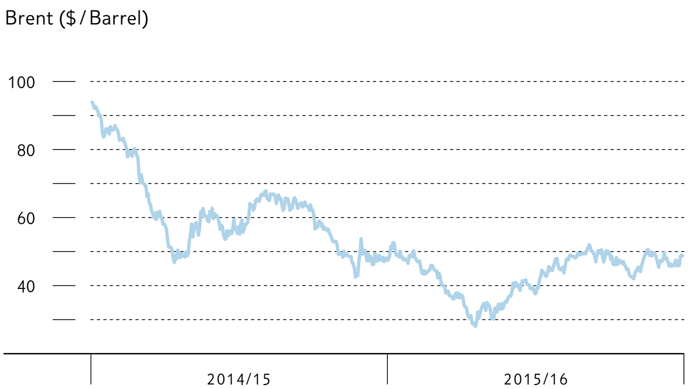
**EXCHANGE RATE US DOLLAR**




**EXCHANGE RATE STERLING**




**OIL PRICE**




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

TUI Group companies operate on a worldwide scale. This presents financial risks for TUI Group, arising from changes in exchange rates and commodity prices.

The essential financial transaction risks from operations relate to euros and US dollars. They mainly result from foreign exchange items in the individual Group companies, for instance aircraft fuel and bunker oil invoices, ship handling costs or products and services sourced by hotels. The parity of sterling against the euro is of relevance for the translation of results generated in the UK market in TUI's consolidated financial statements.

Following the UK referendum at the end of June 2016, which resulted in a vote for Brexit, the currency fluctuations already described in our Half-Year Financial Report 2015/16 continued. They impacted the translation of results from our UK business. Thanks to our consistent hedging policy, input costs in foreign currencies incurred for our UK business in financial year 2015/16 remained largely unaffected by the weakness of sterling. Although the Brexit vote has caused growing uncertainty about the future performance of the UK economy there is no apparent decline in bookings in our UK business to date.

In financial year 2015/16, the average exchange rate of the US dollar against the euro rose by around 3.5% from 1.15 $/€ to 1.11 $/€. The average exchange rate of sterling against the euro fell by around 16.2% from 0.74 £/€ to 0.86 £/€ in the period under review. Sterling significantly depreciated against the euro, especially after the UK's Brexit decision.

Changes in commodity prices affect TUI Group, in particular when procuring fuels such as aircraft fuel and bunker oil. Following relatively moderate fluctuations, the price of Brent oil stood at $49.06 per barrel as at 30 September 2016, which all in all reflects the low level recorded at the beginning of the financial year.

In Tourism, most risks relating to changes in exchange rates and price risks from fuel sourcing are hedged by derivatives. Information on hedging strategies and risk management as well as financial transactions and the scope of such transactions at the balance sheet date is provided in the sections Financial Position and Risk Report in the Management Report and the section Financial Instruments in the Notes to the consolidated financial statements.

*Financial Position see page 87, Risk Report see page 56, Notes see page 170*

## Market environment and competition in tourism

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

### TOURISM CONTINUES GLOBAL GROWTH

According to the United Nations World Tourism Organization (UNWTO), tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The key tourism indicators to measure market size are the number of international tourist arrivals, and international tourism receipts. With international tourism receipts amounting to $1,260 bn and international arrivals amounting to 1.2 m in 2015, the tourism industry is one of the most important sectors in the world economy. International tourist arrivals worldwide are expected to increase by around 3% a year between 2010 and 2030, reaching 1.8 bn per annum by 2030 (UNWTO Tourism Highlights 2016).

**CHANGE OF INTERNATIONAL TOURIST ARRIVALS VS. PRIOR YEAR**

| Var. % | 2016* | 2015 |
|---|---|---|
| **World** | **+4.0** | **+4.6** |
| Europe | +2.6 | +4.7 |
| Asia and the Pacific | +8.8 | +5.6 |
| Americas | +4.2 | +5.9 |
| Africa | +5.4 | –3.1 |
| Middle East | –8.6 | +1.7 |

Source: UNWTO World Tourism Barometer, September 2016
* Period January till June

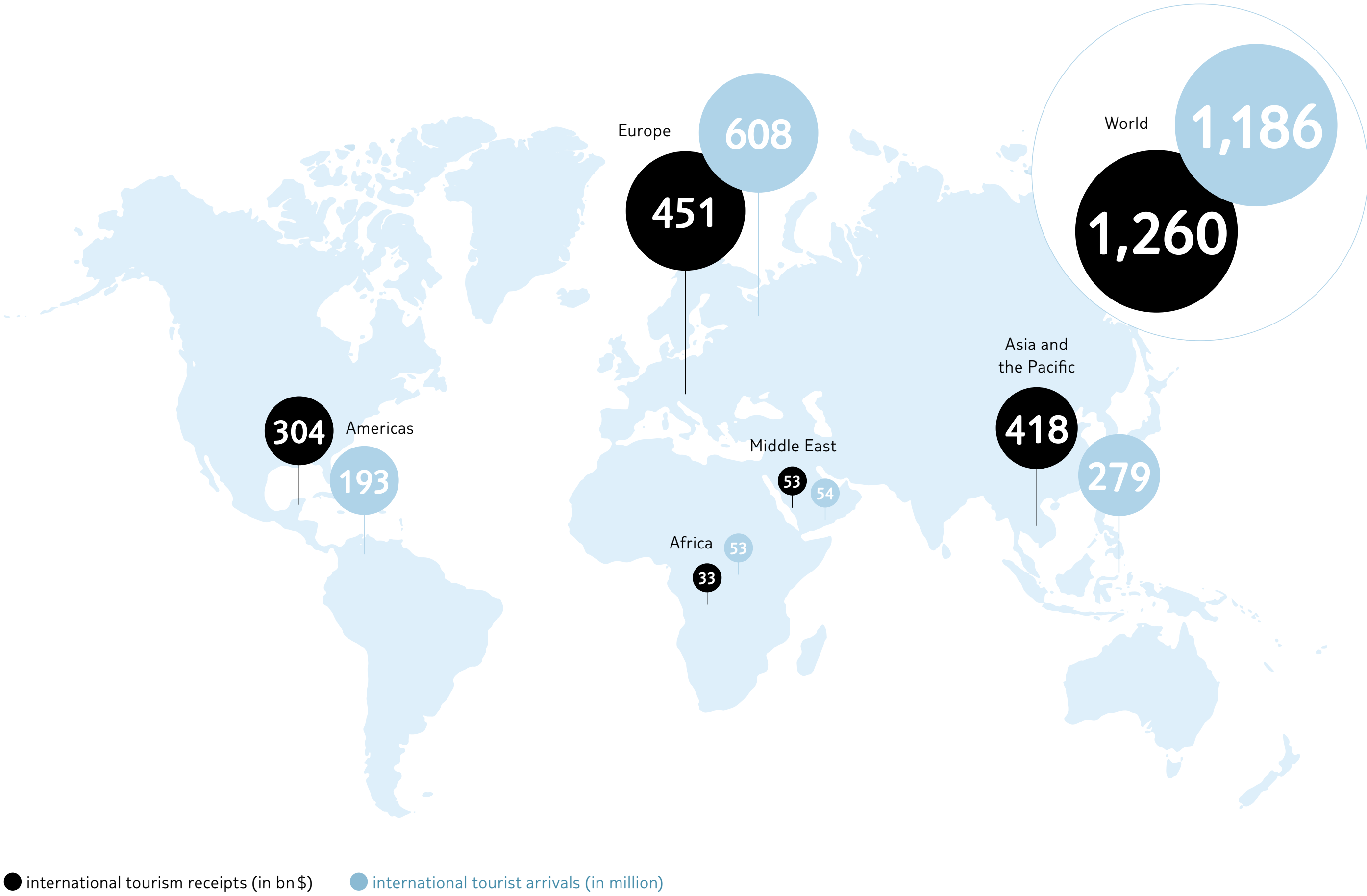
In calendar year 2015, international tourist arrivals grew by 4.6% worldwide to 1.19 bn. This trend continued in the first half of calendar year 2016 at a growth rate of 4.0%. Travel for leisure, recreation and holidays accounted for 53%, i.e. just over half of all international tourist arrivals (UNWTO, Tourism Highlights, 2016 Edition).

At minus 0.7%, TUI Group customer numbers did not match this growth trend in financial year 2015/16; strong growth in customer numbers in the UK and the Netherlands was offset by the impact of lower demand for Turkey and as a result of other geopolitical events.

*Business performance in the source markets see page 79*

Europe remained the largest and most mature tourism market in the world, accounting for 51% of international tourist arrivals and 36% of receipts in 2015. Five European countries (France, Spain, Italy, Germany and the United Kingdom) figured in the top ten international tourism destinations in 2015. Our three main source markets UK, Germany and France were in the top five of all source markets worldwide measured by international tourism expenditure.

**INTERNATIONAL TOURIST ARRIVALS AND RECEIPTS BY SOURCE**




Source: UNWTO, Tourism Highlights, 2016 Edition

Germany continues to be the third largest source market in the world with international tourism expenditure of approximately $ 77.5 bn in 2015, after China (approximately $ 292.2 bn) and the US (approximately $ 112.9 bn). In terms of expenditure per capita, Germany ranks second globally, with approximately $ 946 spent by the average German tourist in 2015 (Source: UNWTO, Tourism Highlights, 2016 Edition). Key operators in the German tourism market are TUI Deutschland, Thomas Cook, DER Touristik, FTI and Alltours (FVW, Dossier, Deutsche Veranstalter, December 2015).

The United Kingdom is the fourth largest source market in the world, with approximately $ 63.3 bn spent on tourism activities in 2015 and on average $ 972 spent per capita over the same period (source: UNWTO, Tourism Highlights, 2016 Edition), the highest amount worldwide. The British tourism market is characterised by a high degree of concentration around two key operators TUI Group and Thomas Cook (Euromonitor, Intermediaries in the United Kingdom, August 2016).

France was the fifth largest source market in 2015, with international tourism expenditure of approximately $ 38.4 bn (source: UNWTO, Tourism Highlights, 2015 Edition). With its main tour operator brands Nouvelles Frontières and Marmara, TUI has a strong position in the French tourism market, which has been highly fragmented in the past but has undergone consolidation in recent months. TUI France will continue to expand its market position with the purchase of the French tour operator in the tourism group Transat completed in October 2016. The merger is to enable TUI France to achieve robust profitability. In 2015, France was the largest destination market in the world with 84.5 million arrivals.

### HOTEL MARKET

The total worldwide hotel market for business and leisure travel was worth € 440 bn in 2015. By 2020, average annual growth (CAGR) is expected to amount to 3.1 % (Euromonitor; September 2016). The hotel market is divided between business and leisure travel. A number of characteristics differentiate leisure travel hotels from business hotels, including longer average lengths of stay for guests in leisure hotels. Locations, amenities and service requirements also differ. From a demand perspective, the leisure hotel market in Europe is divided into several smaller submarkets which cater to the individual needs and demands of tourists. These submarkets include premium, comfort, budget, family / apartment, and club- or resort-style hotels. Hotel companies may offer a variety of hotels for different submarkets, often defined by price range, star ratings, exclusivity, or available facilities.

Consumers in our three main source markets prefer the following destinations: the most popular leisure hotel destinations for consumers in source market Germany are Spain, Italy, Turkey, Austria, France, Croatia, Greece and the Netherlands. The most popular leisure hotel destinations for consumers in source market United Kingdom are Spain, France, Italy, the United States, Portugal, Greece and Turkey. The most popular leisure hotel destinations for consumers in source market France are Spain, Italy, the United Kingdom, Belgium and Luxembourg (Mintel, European Leisure Travel Industry, September 2015).

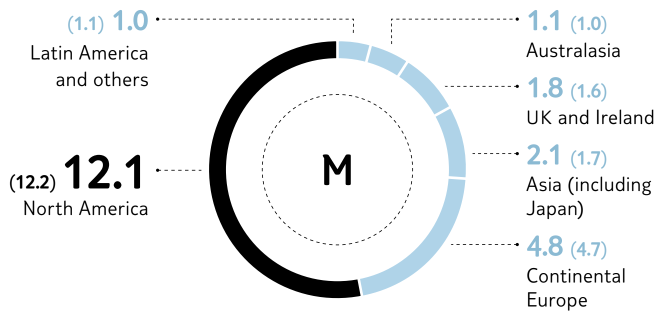
Hotel operations can generally be divided into the following models: asset owners whose primary business is to own real estate assets; brand owners and operators who typically manage hotel assets themselves or enter into franchising arrangements with independent operators who, in turn, manage the hotel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

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

### CRUISE MARKET

The global cruise industry estimates that it generated approximately $ 39.6 bn of revenue in 2015 (Cruise Market Watch website, www.cruisemarketwatch.com/market-share, September 2016). The North American market is by far the largest and most mature cruise market in the world, with approximately 12.1 million guests in 2015 and a strong penetration rate of 3.8 % of the total population taking a cruise in 2015. By contrast, the European cruise markets recorded approximately 6.6 million European passengers, with penetration rates varying significantly from country to country, but considerably lower overall (Mintel, Cruises – International, June 2016; CLIA Statistics & Markets, March 2016). In 2015, the global cruise market grew by around 2.4 %.

**WORLDWIDE CRUISES PASSENGERS BY SOURCE REGION**




Note: All total except North America (which included a share of river cruises now accounting for about 4 % of passengers) are for ocean-cruises passengers only
Source: Mintel, Cruises – International, June 2016

Germany, the United Kingdom & Ireland and France are among the five largest cruise markets in Europe (CLIA Statistics & Markets, March 2016). Germany is Europe's largest cruise market, with 1.8 million passengers in 2015. Germany has thus witnessed average passenger growth of 8.3 % over the past five years. At 2.2 %, its penetration rate was lower than in the United Kingdom & Ireland in 2015.

The United Kingdom & Ireland is the second largest cruise market in Europe, with approximately 1.8 million cruise passengers in 2015. The market has thus grown by 2.1 % on average over the past five years. It shows the strongest penetration rate in Europe: in 2015, 2.7 % of the total British population took a cruise. (Mintel, Cruises – International, June 2016).

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

## Brand

### STRONG MASTER BRAND TUI

Our brand with the "smile" – the smiling logo formed by the three letters of our brand name TUI – stands for a consistent customer experience, digital presence and competitive strength. In 2016, TUI (or the local power brand) was one of the best-known travel brands in core European countries with a brand awareness rate of almost 90 %. The red "TUI smile" is a clear recognition feature and plays in the "Champions League" of international brands in almost all markets.

We are aiming to create one global branding and a consistent brand experience in order to further leverage the appeal and strength of our core brands and tap the associated growth potential. To achieve that goal, our core brand TUI will be rolled out in our European source markets to replace the big local tour operator brands. At the beginning of financial year 2015 / 16, the TUI brand was introduced in the Netherlands, where it has successfully replaced the previous world of Arke brands for tour operator, distribution and flight activities. TUI has rapidly become one of the strongest travel markets in the Netherlands in terms of brand awareness and preference. In October 2016 , our rebranding campaign was launched in Belgium, with the Nordics to follow in Winter 2016 / 17. Brand migration in the UK will follow at the end of 2017.

In Germany, travel products have been offered under the TUI brand for more than 45 years. In a survey carried out in 2016, TUI was again rated as Germany's most trusted travel brand (Source: Reader's Digest Trusted Brands 2016).

## Changes in the legal framework

In financial year 2015 / 16, there were no changes in the legal framework with material impacts on TUI Group's business performance.

# Group earnings

## Comments on the consolidated income statement

Financial year 2015 / 16 brought a markedly positive development in the TUI Group's earnings position. The operating result (underlying EBITA) of TUI Group's continuing operations improved by 5.0 % to € 1,000.5 m in the period under review, or by 14.5 % year-on-year on a constant currency basis. This growth was driven in particular by the continued good performance of Northern Region and in the segments Hotels & Resorts and Cruises.

INCOME STATEMENT OF THE TUI GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 30 SEP 2016

| € million | **2015 / 16** | 2014 / 15 restated | Var. % |
|---|---|---|---|
| **Turnover** | **17,184.6** | **17,515.5** | **–1.9** |
| Cost of sales | 15,278.1 | 15,549.5 | –1.7 |
| **Gross profit** | **1,906.5** | **1,966.0** | **– 3.0** |
| Administrative expenses | 1,216.9 | 1,352.6 | –10.0 |
| Other income | 36.3 | 42.9 | –15.4 |
| Other expenses | 7.4 | 5.7 | + 29.8 |
| Financial income | 58.5 | 35.8 | + 63.4 |
| Financial expenses | 345.9 | 364.5 | – 5.1 |
| Share of result of joint ventures and associates | 187.2 | 143.9 | + 30.1 |
| **Earnings before income taxes** | **618.3** | **465.8** | **+ 32.7** |
| Income taxes | 153.4 | 58.2 | +163.6 |
| **Result from continuing operations** | **464.9** | **407.6** | **+14.1** |
| Result from discontinued operations | 687.3 | – 28.0 | n. a. |
| **Group profit for the year** | **1,152.2** | **379.6** | **+ 203.5** |
| Group profit for the year attributable to shareholders of TUI AG | 1,037.4 | 340.4 | + 204.8 |
| Group profit for the year attributable to non-controlling interest | 114.8 | 39.2 | +192.9 |

## Turnover and cost of sales

### TURNOVER

| € million | **2015/16** | 2014/15 restated | Var. % |
|---|---|---|---|
| Northern Region | 7,001.5 | 7,348.4 | – 4.7 |
| Central Region | 5,566.6 | 5,600.9 | – 0.6 |
| Western Region | 2,869.9 | 2,847.0 | + 0.8 |
| Hotels & Resorts | 618.6 | 574.8 | + 7.6 |
| Cruises | 296.7 | 273.3 | + 8.6 |
| Other Tourism | 665.5 | 704.8 | – 5.6 |
| **Tourism** | **17,018.8** | **17,349.2** | **– 1.9** |
| All other segments | 165.8 | 166.3 | – 0.3 |
| **TUI Group** | **17,184.6** | **17,515.5** | **– 1.9** |
| Discontinued operations | 2,321.6 | 2,565.8 | – 9.5 |
| **Total** | **19,506.2** | **20,081.3** | **– 2.9** |

In financial year 2015/16, turnover by TUI Group declined by 1.9 % to € 17.2 bn due to foreign exchange effects. On a constant currency basis, turnover grew by 1.4 % despite the year-on-year decline in customer numbers of 0.7 %. Turnover is presented alongside the cost of sales, which was down 1.7 % in the period under review.

### GROSS PROFIT

Gross profit, i.e. the difference between turnover and the cost of sales, decreased by € 59.5 m to around € 1.9 bn in financial year 2015/16.

### ADMINISTRATIVE EXPENSES

Administrative expenses declined by € 135.7 m year-on-year to € 1,216.9 m. The decrease was driven by the synergies delivered in the period under review and higher one-off expenses incurred in the previous year.

### OTHER INCOME/OTHER EXPENSES

In financial year 2015/16, other income of € 36.3 m comprised gains from the sale of a Riu Group hotel, a joint venture, a cruise ship, commercial real estate and vehicles of incoming agencies. Other expenses in 2015/16 totalled € 7.4 m, primarily for the disposal of aircraft spare parts.

### FINANCIAL RESULT

The financial result improved by € 41.3 m to € – 287.4 m. The increase was essentially due to the year-on-year decline in expenses resulting from the measurement of the stake in Hapag-Lloyd AG.

### SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

The result from joint ventures and associates comprises the proportionate net profit for the year of these companies measured at equity and where appropriate impairments of goodwill for these companies. In the period under review, the at equity result totalled € 187.2 m. The significant increase of € 43.3 m partly resulted from the improvement in the operating performance of Riu hotels and a higher profit contribution by TUI Cruises.

### INCOME TAXES

The year-on-year increase in income taxes in financial year 2015/16 is mainly attributable to the one-off effect recognised in the previous year of the revaluation of deferred tax assets for loss carryforwards following the merger between TUI AG and TUI Travel PLC.

### RESULT FROM DISCONTINUED OPERATION

The result from discontinued operation shows the after-tax result of Specialist Group, classified as a discontinued operation, as well as LateRooms Group and Hotelbeds Group until these operations were sold.

### GROUP PROFIT

Group profit increased by € 772.6 m year-on-year to € 1,152.2 m in financial year 2015/16.

### SHARE IN GROUP PROFIT ATTRIBUTABLE TO TUI AG SHAREHOLDERS

The share in Group profit attributable to the TUI AG shareholders improved from € 340.4 m in the prior year to € 1,037.4 m in financial year 2015/16. Apart from the sound operating performance of the Group, the increase is attributable to the gain on disposal from the sale of Hotelbeds Group.

### NON-CONTROLLING INTERESTS

Non-controlling interests in Group profit for the year totalled € 114.8 m. They related to companies in Hotels & Resorts and, in the prior year, the external shareholders of TUI Travel PLC until the completion of the merger with TUI AG. The share in Group results attributable to non-controlling interests in Hotels & Resorts mainly derives from the RIUSA II Group.

### EARNINGS PER SHARE

The interest in Group profit for the year attributable to TUI AG shareholders after deduction of non-controlling interests totalled € 1,037.4 m (previous year € 340.4 m) in 2015 / 16. Basic earnings per share therefore amounted to € 1.78 (previous year € 0.64) in financial year 2015 / 16.

## EBITA, underlying EBITA und underlying earnings per share

Key indicators used to manage the TUI Group are EBITA and underlying EBITA. We consider EBITA to be the most suitable performance indicator for explaining the development of the TUI Group's operating performance. EBITA comprises earnings before interest, taxes and goodwill impairments; it does not include the results from container shipping operations nor the results from the measurement of interest hedging instruments.

### RECONCILIATION TO UNDERLYING EARNINGS

| € million | **2015 / 16** | 2014 / 15 restated | Var. % |
|---|---|---|---|
| **Earnings before income taxes** | **618.3** | **465.8** | **+ 32.7** |
| less: Profit on Container Shipping measured at equity | – | – 0.9 | n. a. |
| plus: Loss on measurement of financial investment in Container Shipping | 100.3 | 147.1 | – 31.8 |
| plus: Net Interest expense and expense from the measurement of interest hedges | 179.5 | 182.6 | –1.7 |
| **EBITA** | **898.1** | **794.6** | **+ 13.0** |
| **Adjustments:** | | | |
| plus: Loss on disposals / less: Gain on disposals | 0.8 | – 3.3 | n. a. |
| plus: Restructuring expense | 12.0 | 59.4 | –79.8 |
| plus: Expense from purchase price allocation | 41.9 | 42.1 | – 0.5 |
| plus: Expense from other one-off items | 47.7 | 60.5 | – 21.2 |
| **Underlying EBITA** | **1,000.5** | **953.3** | **+ 5.0** |

Reported earnings (EBITA) of TUI Group rose by € 103.5 m to € 898.1 m due to the very good operating performance in financial year 2015 / 16.

### EBITA

| € million | **2015 / 16** | 2014 / 15 | Var. % |
|---|---|---|---|
| Northern Region | 440.4 | 513.4 | –14.2 |
| Central Region | 67.3 | 72.9 | –7.7 |
| Western Region | 72.1 | 57.7 | + 25.0 |
| Hotels & Resorts | 285.1 | 195.7 | + 45.7 |
| Cruises | 129.6 | 80.5 | + 61.0 |
| Other Tourism | – 6.2 | – 4.1 | – 51.2 |
| **Tourism** | **988.3** | **916.1** | **+ 7.9** |
| All other segments | – 90.2 | –121.5 | + 25.8 |
| **TUI Group** | **898.1** | **794.6** | **+ 13.0** |
| Discontinued operations | 14.7 | 2.6 | + 465.4 |
| **Total** | **912.8** | **797.2** | **+ 14.5** |

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

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

TUI Group's underlying EBITA rose by € 47.2 m to € 1,000.5 m in financial year 2015 / 16.

**UNDERLYING EBITA**

| € million | **2015 / 16** | 2014 / 15 | Var. % |
|---|---|---|---|
| Northern Region | 460.9 | 538.4 | – 14.4 |
| Central Region | 88.5 | 103.5 | – 14.5 |
| Western Region | 86.1 | 68.7 | + 25.3 |
| Hotels & Resorts | 287.3 | 234.6 | + 22.5 |
| Cruises | 129.6 | 80.5 | + 61.0 |
| Other Tourism | 4.6 | 8.4 | – 45.2 |
| **Tourism** | **1,057.0** | **1,034.1** | **+ 2.2** |
| All other segments | – 56.5 | – 80.9 | + 30.2 |
| **TUI Group** | **1,000.5** | **953.3** | **+ 5.0** |
| Discontinued operations | 92.9 | 107.3 | – 13.4 |
| **Total** | **1,093.4** | **1,060.5** | **+ 3.1** |

In financial year 2015 / 16, adjustments worth € 3.2 m were carried for income, compared with adjustments on underlying expenses amounting to € 63.8 m, without taking account of the expenses for purchase price allocations. Overall, net one-off expenses worth € 11.1 m were incurred in connection with the merger between TUI AG and the former TUI Travel PLC. They included an amount of € 4.2 m for restructuring the corporate centre and € 6.9 m for integrating the incoming agencies into Tourism.

The adjustments primarily related to the following facts and circumstances:

**GAINS ON DISPOSAL**

In financial year 2015 / 16, gains on disposal worth € 0.8 m had to be adjusted for. They related in particular to capital reductions in subsidiaries.

**RESTRUCTURING COSTS**

In financial year 2015 / 16 ,restructuring costs of € 12.0 m had to be adjusted for. They related to smaller reorganisations in Northern, Central and Western Regions and the restructuring of the corporate centre as well as the transfer of incoming agencies to the source market organisations.

**EXPENSES FOR PURCHASE PRICE ALLOCATIONS**

In financial year 2015 / 16, expenses for purchase price allocations worth € 41.9 m were adjusted for; they related in particular to scheduled amortisation of intangible assets from acquisitions made in previous years.

**ONE-OFF ITEMS**

Net expenses for one-off items of € 47.7 m included in particular an amount of € 17.9 m relating to reorganisation in Central and Western Regions and at Corsair, an amount of € 5.7 m for consultancy costs for planned corporate transactions, and € 4.7 m for the restructuring of the corporate centre and the transfer of incoming agencies to the source market organisations.

**PRO FORMA UNDERLYING EARNINGS PER SHARE**

In order to provide a comparable basis for TUI Group's underlying earnings per share going forward, a pro forma calculation is included below. The calculation is based on the issued share capital at the balance sheet date and therefore adjusts for the impact of bond conversions in 2014 / 15.

**PRO FORMA UNDERLYING EARNINGS PER SHARE TUI GROUP**

| € million | | 2015/16 | 2014/15 restated |
|---|---|---|---|
| **EBITA (underlying)** | | **1,000.5** | **953.3** |
| less: Net interest expense | | –179.5 | –182.6 |
| plus: Interest expense on convertible bonds | | – | 19.0 |
| **Underlying profit before tax** | | **821.1** | **789.7** |
| Income taxes (underlying) | | 205.3 | 197.4 |
| **Underlying Group profit** | | **615.8** | **592.3** |
| Minority interest | | 111.5 | 90.0 |
| Hybrid interest expense | | – | 11.0 |
| **Underlying Group profit attributable to TUI shareholders of TUI AG** | | **504.3** | **491.3** |
| Number of shares (pro forma) | No. million | 587.0 | 587.0 |
| **Pro forma underlying earnings per share** | | **0.86** | **0.84** |

# Segmental performance

## Current and future trading in Tourism

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

At the end of financial year 2015/16, current trading by source market for Winter 2016/17 compared as follows with the previous year:

**CURRENT TRADING[1]**

| | Winter season 2016/17 | | |
|---|---|---|---|
| Var. % | Average selling price[2] | Total sales[2] | Total customers[2] |
| **Northern Region** | **+3** | **+14** | **+11** |
| UK | +6 | +26 | +18 |
| Nordics | –3 | –6 | –3 |
| **Central Region** | **+7** | **+4** | **–3** |
| Germany | +7 | +2 | –5 |
| **Western Region** | **+3** | **+7** | **+4** |
| Benelux | +3 | +4 | +1 |
| **Total source markets** | **+5** | **+9** | **+4** |

1 As at 20 November 2016 (on a constant currency basis)
2 These statistics relate to all customers whether risk or non-risk.

For the 2017 Summer season, already available for bookings in the UK, booked revenues were around 15 % ahead of the prior year in November 2016.

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

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

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

Our key operating indicators developed as follows in our source markets:

## Source markets

| | DIRECT DISTRIBUTION MIX[1] *in %* | | ONLINE MIX[2] *in %* | | CUSTOMERS[3] *in '000* | |
|---|---|---|---|---|---|---|
| | Var. percentage points | 2015/16 (2014/15) | Var. percentage points | 2015/16 (2014/15) | Var. % | 2015/16 (2014/15) |
| SOURCE MARKETS | + 2 % points | 72 (70) | + 2 % points | 43 (41) | – 0.7 % | 19,231 (19,361) |
| NORTHERN REGION[4] | + 1 % point | 92 (91) | + 4 % points | 62 (58) | + 2.0 % | 7,388 (7,240) |
| CENTRAL REGION | + 3 % points | 47 (44) | – | 15 (15) | – 4.7 % | 6,828 (7,168) |
| WESTERN REGION | + 2 % points | 70 (68) | + 4 % points | 52 (48) | + 1.3 % | 5,016 (4,953) |

1 Share of sales via own channels (retail and online)
2 Share of online sales
3 Previous year's figures included Italy which has been transferred to All other Segments.
4 Customer numbers of Northern Region now include Crystal Ski and Thomson Lakes & Mountains (formerly Specialist Group)

## Northern Region

Northern Region comprises TUI's tour operators and airlines and the cruise business in the UK, Ireland and the Nordics. In the run-up to the sale of large parts of Specialist Group, the skiing tour operators previously forming part of Specialist Group were allocated to source market UK. The segment also comprises the strategic stake held in Sunwing in Canada, and TUI Russia, which operates in the CIS countries.

**NORTHERN REGION – KEY FIGURES**

| € million | 2015 / 16 | 2014 / 15 restated | Var. % |
|---|---|---|---|
| Turnover | 7,001.5 | 7,348.4 | – 4.7 |
| Underlying EBITA | 460.9 | 538.4 | – 14.4 |
| EBITA | 440.4 | 513.4 | – 14.2 |

In financial year 2015 / 16, the Northern Region tour operators continued their positive development. In particular due to the increase in TUI UK customers, customer volumes rose by 2.0 % year-on-year in Northern Region. Due to the year-on-year weakening of the exchange rate for sterling during the key travel months, turnover by Northern Region declined by 4.7 % to € 7,001.5 m. By contrast, turnover rose by 2.6 % on a constant currency basis. Northern Region underlying EBITA declined by € 77.5 m year-on-year to € 460.9 m due to foreign exchange effects. By contrast, earnings by Northern Region improved by 3.3 % year-on-year on a constant currency basis.

In the UK, tour operators again delivered a sound business performance, driven in particular by the strength of customer demand for TUI's unique holidays with growth across short-, medium- and long-haul destinations. The cruise business benefited from the launch of TUI Discovery in June 2016. Customer volumes, adjusted for the skiing tour operator customers during the reporting periods, rose by 4.0 % overall in 2015 / 16. We continued to drive growth in online bookings, with that channel accounting for 58 % of all holidays, up around 4 percentage points year-on-year.

In the Nordics, our performance in the financial year was impacted by growing price pressure in the lates market and lower demand for Turkey. This impact was not fully mitigated by the increase in the proportion of the programme remixed to alternative destinations and the inclusion of Riu hotels in the long-haul segment. Upfront costs were also incurred for the TUI brand migration in the Nordics. The online channel accounted for around 75 % of all bookings, up by around three percentage points.

Sunwing recorded an increase in direct costs driven by the small decline in the Canadian dollar against the US dollar. Despite a good Summer season, it therefore posted an overall decline year-on-year. On the other hand, there was a positive impact from the continued expansion of our differentiated hotel portfolio in the Caribbean and Mexico.

## Central Region

Central Region comprises the TUI tour operators in Germany, Austria, Switzerland and Poland and the TUI fly airline.

**CENTRAL REGION – KEY FIGURES**

| € million | 2015 / 16 | 2014 / 15 restated | Var. % |
|---|---|---|---|
| Turnover | 5,566.6 | 5,600.9 | – 0.6 |
| Underlying EBITA | 88.5 | 103.5 | – 14.5 |
| EBITA | 67.3 | 72.9 | – 7.7 |

With customer volumes down by 4.7 % year-on-year, turnover by Central Region was almost flat on the prior year on a slight decline of 0.6 % in financial year 2015 / 16. Central Region underlying EBITA was also broadly stable. In the period under review, a major adverse effect was caused by the geopolitical events in Egypt and Turkey and the resulting subdued demand for these important destinations and an intensification of price competition for flights to Spain. In Germany, market conditions therefore remained challenging in a highly competitive environment. The result includes the impact of a court ruling in November regarding airport services and marketing agreements with an Austrian airport, and the partial impact on holidays commenced in September of unexpectedly high levels of sickness among TUI fly flight crew. However, TUI Deutschland continued to strengthen its core brand TUI through stronger marketing measures and managed to further grow its market share.

## Western Region

Western Region combines TUI tour operators and Group-owned airlines in Belgium and the Netherlands as well as tour operators in France.

**WESTERN REGION – KEY FIGURES**

| € million | 2015 / 16 | 2014 / 15 restated | Var. % |
|---|---|---|---|
| Turnover | 2,869.9 | 2,847.0 | + 0.8 |
| Underlying EBITA | 86.1 | 68.7 | + 25.3 |
| EBITA | 72.1 | 57.7 | + 25.0 |

With customer volumes up by 1.3 % in Western Region, turnover grew by 0.8 % in financial year 2015 / 16. Underlying EBITA grew by € 17.4 m to € 86.1 m. The French tour operating business improved year-on-year due to the expansion of its offering to EU destinations and positive effects from restructuring measures. Business in the Netherlands benefited from the TUI brand migration in Autumn 2015 and a 3.0 % increase in customer volumes. These positive effects were partly offset by the weaker performance of the Belgian market, which was adversely impacted by the aftermath of the terrorist attacks in Brussels in March 2016.

## Hotels & Resorts

The Hotels & Resorts segment comprises all TUI Group hotels and hotel companies, including the hotel business of former TUI Travel. They include subsidiaries, joint ventures with local partners, associates over which significant influence is held, and hotels operated under management contracts.

### HOTELS & RESORTS – KEY FIGURES

| € million | 2015/16 | 2014/15 | Var. % |
|---|---|---|---|
| Total turnover | 1,278.4 | 1,252.2 | +2.1 |
| Turnover | 618.6 | 574.8 | +7.6 |
| Underlying EBITA | 287.3 | 234.6 | +22.5 |
| EBITA | 285.1 | 195.7 | +45.7 |

Total turnover by the Hotels & Resorts segment rose by 2.6 % to € 1,278.4 m year-on-year in 2015/16. Capacity declined overall; the expanded offering of our core brands Riu and Robinson was offset by cuts in hotel capacities in North Africa and Turkey driven by geopolitical events. Occupancy of TUI hotels was slightly down year-on-year, while average revenues per bed grew considerably in the period under review. Turnover with third parties grew to € 618.6 m in 2015/16, up by 7.6 % year-on-year. Underlying EBITA amounted to € 287.3 m, up by € 52.7 m on the prior year. This significant increase was mainly driven by the sustained positive business development of hotel brand Riu, which benefited in particular from its strong market position in the western Mediterranean and in the long-haul segment.

### HOTELS & RESORTS

| | CAPACITY[1] *in '000* Var. % | CAPACITY[1] *in '000* 2015/16 (2014/15) | OCCUPANCY RATE[2] *in %* Var. percentage points | OCCUPANCY RATE[2] *in %* 2015/16 (2014/15) | AVERAGE REVENUE PER BED[3] *in €* Var. % | AVERAGE REVENUE PER BED[3] *in €* 2015/16 (2014/15) |
|---|---|---|---|---|---|---|
| HOTELS TOTAL[4] | –1.9 % | 35,031 (35,706) | –1.2 % points | 77.5 (78.7) | +5.5 % | 58.00 (55.00) |
| RIU | +0.7 % | 17,396 (17,272) | +3.7 % points | 89.6 (85.9) | +5.6 % | 60.34 (57.13) |
| ROBINSON | +6.3 % | 3,081 (2,898) | –5.5 % points | 67.1 (72.6) | –0.6 % | 90.10 (90.67) |

1 Group owned or leased hotel beds multiplied by opening days per annum
2 Occupied beds divided by capacity
3 Arrangement revenue divided by occupied beds
4 Incl. former TUI Travel hotels

### RIU

Riu, one of Spain's leading hotel chains, operated a total of 94 hotels (prior year: 104) with 86,184 beds at the end of financial year 2015/16. The year-on-year decline was driven by the termination of management contracts in Tunisia following the terrorist attacks in Summer 2015. Capacity increased slightly by 0.7 % year-on-year. Average occupancy of Riu hotels rose slightly by 3.7 percentage points to 89.6 %. This increase above all reflects strong demand for hotels in Spain and Portugal, and for the Cape Verde Islands, Mauritius and St Martin in the long-haul segment. Average revenues per bed rose by 5.6 %. The individual regions developed as follows in the period under review:

Riu hotels in the Canaries recorded strong demand and benefited from the shift in demand driven by geopolitical events in the eastern Mediterranean. Occupancy of hotel beds rose by 4.7 percentage points to 97.2 %. Moreover, average revenues per bed also increased by 9.3 %.

Riu hotels in the Balearics also recorded a very positive performance in the period under review. At 84.7 %, occupancy was 2.1 percentage points up year-on-year. Average revenues per bed rose by 8.3 % in the period under review.

At 90.5 %, average occupancy of Riu hotels in mainland Spain was 5.0 percentage points up year-on-year, with average revenues per bed up by 7.8 %.

Riu hotels in long-haul destinations reported average occupancy of 84.7 %. This was an increase of 2.3 percentage points on the prior year, driven by higher occupancy in the hotels in St Martin, Mauritius and the Cape Verde Islands. Average revenues per bed posted for long-haul destinations grew by 5.4 % year-on-year, driven partly by exchange rate fluctuations.

### ROBINSON

Robinson, market leader in the premium club holiday segment, operated a total of 24 club facilities with 15,342 beds in twelve countries at the end of the financial year under review, as in the prior year. Capacity rose by 6.3 % year-on-year. This growth was mainly driven by the additional club facility Kyllini Beach in Greece and the first-time full-year inclusion of the club resort in Tunisia. Occupancy of Robinson Group was 5.5 percentage points down year-on-year in financial year 2015 / 16, with the club resorts in Turkey, Morocco and Tunisia, in particular, falling short of the prior year's levels. Average revenues per bed were slightly down at 0.6 % under the prior year's level.

### OTHER HOTELS

Other hotels mainly comprise the hotel brands TUI Blue, Grupotel, Iberotel and Magic Life and the further hotel activities by former TUI Travel. The indicators for Other hotels were also impacted by the aftermath of the geopolitical situation.

The first two hotels to operate under our new hotel brand TUI Blue opened in Turkey in May 2016. The portfolio has been further expanded for the current financial year; a total of seven hotels are now available in six countries (Germany, Austria, Italy, Spain, Croatia and Turkey). They offer our customers a consistent TUI holiday experience with a premium all-inclusive concept.

## Cruises

The Cruises segment comprises Hapag-Lloyd Cruises and the joint venture TUI Cruises.

CRUISES – KEY FIGURES

| € million | **2015 / 16** | 2014 / 15 | Var. % |
|---|---|---|---|
| Turnover | 296.7 | 273.3 | + 8.6 |
| Underlying EBITA | 129.6 | 80.5 | + 61.0 |
| EBITA | 129.6 | 80.5 | + 61.0 |

At € 296.7 m, turnover by Hapag-Lloyd Cruises was 8.6 % up on the prior year in financial year 2015 / 16. No turnover is carried for TUI Cruises as the joint venture is measured at equity in the consolidated financial statements.

Cruises underlying EBITA increased to € 129.6 m in 2015 / 16, up by € 49.1 m year-on-year. On a persistently sound operating performance for the two companies, this was also driven by the expansion of the TUI Cruises fleet. With the successful market launch of Mein Schiff 4 in June 2015 and Mein Schiff 5 in July 2016, TUI Cruises continued to build on its competitive position. In the period under review, Hapag-Lloyd Cruises also benefited from lower financing costs due to the acquisition of Europa 2 in the prior year.

## CRUISES

| | OCCUPANCY in % | | PASSENGER DAYS in '000 | | AVERAGE DAILY RATES* in € | |
|---|---|---|---|---|---|---|
| | Var. percentage points | 2015/16 (2014/15) | Var. % | 2015/16 (2014/15) | Var. % | 2015/16 (2014/15) |
| HAPAG-LLOYD CRUISES | +0.6 % points | 76.8 (76.2) | +1.9 % | 355 (348) | +8.0 % | 579 (536) |
| TUI CRUISES | –0.1 % point | 102.6 (102.7) | +30.0 % | 3,482 (2,679) | +1.2 % | 171 (169) |

*Per day and passenger

### HAPAG-LLOYD CRUISES

In financial year 2015/16, the sound operating performance of Hapag-Lloyd Cruises benefited from the successful realignment of the brand, which had resulted in a turnaround in the previous year. Occupancy of its fleet was stable at 76.8 %, a slight increase of 0.6 percentage points versus the prior year. The average daily rate grew substantially by 8.0 % to € 579. In the period under review, passenger days grew by 1.9 % year-on-year to 354,611.

### TUI CRUISES

In financial year 2015/16, occupancy of TUI Cruises' ships was 102.6 % (based on the double occupancy calculation conventionally used in the sector), maintaining the very high level recorded in the prior year. Due to the successful expansion of the TUI Cruises fleet to include Mein Schiff 4 in June 2015 and Mein Schiff 5 in July 2016, capacity grew to 3.5 m passenger days in financial year 2015/16, considerably up year-on-year. The average daily rate rose by 1.2 % to € 171 year-on-year. In November 2015, cruises in South East Asian lanes were newly included in the programme served by TUI Cruises' fleet.

At the end of financial year 2015/16, the fleet consisted of five ships. The maiden voyage of Mein Schiff 6 is expected for Summer 2017. In 2018 and 2019, two further newbuilds will be launched. They will then replace Mein Schiff 1 and Mein Schiff 2, currently still in service, as part of the fleet modernisation programme.

## All other segments

The category "All other segments" refers, in particular, to the corporate centre functions of TUI AG and the intermediate holdings as well as the Group's real estate companies.

**ALL OTHER SEGMENTS – KEY FIGURES**

| € million | **2015/16** | 2014/15 restated | Var. % |
|---|---|---|---|
| Turnover | 165.8 | 166.3 | –0.3 |
| Underlying EBITA | –56.5 | –80.9 | +30.2 |
| EBITA | –90.2 | –121.5 | +25.8 |

All other segments underlying EBITA cost declined by 30.1 % year-on-year to € 56.5 m in the period under review. The improvement was driven by the delivery of corporate streamlining synergies worth € 30 m, higher proceeds from sales of land, and positive impacts of foreign exchange translation.

# Net assets

**DEVELOPMENT OF THE GROUP'S ASSET STRUCTURE**

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Fixed assets | 8,345.0 | 8,902.7 | –6.3 |
| Non-current receivables | 786.8 | 711.3 | +10.6 |
| **Non-current assets** | **9,131.8** | **9,614.0** | **–5.0** |
| Inventories | 105.2 | 134.5 | –21.8 |
| Current receivables | 2,218.2 | 2,623.1 | –15.4 |
| Cash and cash equivalents | 2,072.9 | 1,672.7 | +23.9 |
| Assets held for sale | 929.8 | 42.2 | n. a. |
| **Current assets** | **5,326.1** | **4,472.5** | **+19.1** |
| **Assets** | **14,457.9** | **14,086.5** | **+2.6** |
| Equity | 3,248.2 | 2,417.3 | +34.4 |
| Liabilities | 11,209.7 | 11,669.2 | –3.9 |
| **Equity and liabilities** | **14,457.9** | **14,086.5** | **+2.6** |

The Group's balance sheet total increased by 2.6 % as against 30 September 2015 to € 14.5 bn.

## Vertical structural indicators

Non-current assets accounted for 63.2 % of total assets, compared with 68.2 % in the previous year. The capitalisation ratio (ratio of fixed assets to total assets) decreased from 63.2 % to 57.5 %.

Current assets accounted for 36.8 % of total assets, compared with 31.8 % in the previous year. The Group's cash and cash equivalents increased by € 400.2 m year-on-year to € 2,072.9. They thus accounted for 14.3 % of total assets, as against 11.9 % in the previous year.

## Horizontal structural indicators

At the balance sheet date, the ratio of equity to non-current assets was 35.6 %, as against 25.1 % in the previous year. The ratio of equity to fixed assets was 38.9 % (previous year 27.2 %). The ratio of equity plus non-current financial liabilities to fixed assets was 56.9 %, compared with 48.3 % in the previous year.

**STRUCTURE OF THE GROUP'S NON-CURRENT ASSETS**

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Goodwill | 2,853.5 | 3,220.4 | –11.4 |
| Other intangible assets | 545.8 | 911.5 | –40.1 |
| Investment property | – | 7.2 | n. a. |
| Property, plant and equipment | 3,714.5 | 3,636.8 | +2.1 |
| Companies measured at equity | 1,180.8 | 1,077.8 | +9.6 |
| Financial assets available for sale | 50.4 | 56.2 | –10.3 |
| **Fixed assets** | **8,345.0** | **8,902.7** | **–6.3** |
| Receivables and assets | 442.1 | 380.6 | +16.2 |
| Deferred tax claims | 344.7 | 330.7 | +4.2 |
| **Non-current receivables** | **786.8** | **711.3** | **+10.6** |
| **Non-current assets** | **9,131.8** | **9,614.0** | **–5.0** |

## Development of the Group's non-current assets

### GOODWILL

Goodwill declined by € 366.9 m to € 2,853.5. The decrease in the carrying amount is essentially due to the translation of goodwill not managed in the TUI Group's functional currency into euros. It was also driven by the disposal of Hotelbeds Group and recognition of Specialist Group as a discontinued operation. In the period under review, no adjustments were required as a result of impairment tests.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment increased to € 3,714.5 m in the period under review, primarily driven by the acquisition of a cruise ship in Northern Region and the capitalisation of one aircraft as well as down payments on aircraft orders, partly offset by the reclassification of the segments Hotelbeds Group and Specialist Group to assets held for sale. Property, plant and equipment also comprised leased assets in which Group companies held economic ownership. At the balance sheet date, these finance leases had a carrying amount of € 1,230.0 m, up 21.8 % year-on-year.

### DEVELOPMENT OF PROPERTY, PLANT AND EQUIPMENT

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Real estate with hotels | 978.9 | 971.2 | + 0.8 |
| Other land | 155.4 | 170.2 | – 8.7 |
| Aircraft | 1,202.0 | 1,166.0 | + 3.1 |
| Ships | 674.3 | 706.7 | – 4.6 |
| Machinery and fixtures | 335.5 | 391.9 | – 14.4 |
| Assets under construction, payments on accounts | 368.4 | 230.8 | + 59.6 |
| **Total** | **3,714.5** | **3,636.8** | **+ 2.1** |

### COMPANIES MEASURED AT EQUITY

Thirteen associated companies and 27 joint ventures were measured at equity. At € 1,180.8 m, their value increased by 9.6 % year-on-year as at the balance sheet date.

### STRUCTURE OF THE GROUP'S CURRENT ASSETS

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| **Inventories** | **105.2** | **134.5** | **– 21.8** |
| Financial assets available for sale | 265.8 | 334.9 | – 20.6 |
| Trade accounts receivable and other assets* | 1,864.7 | 2,229.7 | – 16.4 |
| Current tax assets | 87.7 | 58.5 | + 49.9 |
| **Current receivables** | **2,218.2** | **2,623.1** | **– 15.4** |
| **Cash and cash equivalents** | **2,072.9** | **1,672.7** | **+ 23.9** |
| **Assets held for sale** | **929.8** | **42.2** | **n. a.** |
| **Current assets** | **5,326.1** | **4,472.5** | **+ 19.1** |

* incl. receivables from derivative financial instruments

## Development of the Group's current assets

### FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprised the remaining interests in Hapag-Lloyd AG as at 30 September 2016.

### CURRENT RECEIVABLES

Current receivables comprise trade accounts receivable and other receivables, current income tax assets and claims from derivative financial instruments. At € 2,218.2 m, current receivables decreased by 15.4 % year-on-year.

### CASH AND CASH EQUIVALENTS
At € 2,072.9 m, cash and cash equivalents increased by 23.9 % year-on-year.

### ASSETS HELD FOR SALE
Assets held for sale increased by € 887.6 m to € 929.8 m. The increase is primarily attributable to the reclassification of Specialist Group to assets held for sale.

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

**OPERATING RENTAL, LEASE AND CHARTER CONTRACTS**

| € million | 30 Sep 2016 | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Aircraft | 1,886.3 | 2,144.7 | –12.0 |
| Hotel complexes | 731.9 | 793.6 | –7.8 |
| Travel agencies | 229.1 | 263.7 | –13.1 |
| Administrative buildings | 271.2 | 327.5 | –17.2 |
| Ships, Yachts and motor boats | 204.6 | 195.0 | + 4.9 |
| Other | 114.3 | 118.8 | – 3.8 |
| **Total** | **3,437.4** | **3,843.3** | **–10.6** |
| **Fair value** | **3,319.6** | **3,540.6** | **– 6.2** |

The fair value of financial liabilities from operating rental, lease and charter agreements declined by € 221.0 m to € 3,319.6 m. At 54.9 %, aircraft accounted for the largest portion, with hotel complexes accounting for 21.3 %.

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

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

→ *TUI Group fundamentals see from page 28; TUI share performance from page 106*

# Financial position of the Group

## Principles and goals of financial management

### PRINCIPLES
TUI Group's financial management is centrally operated by TUI AG, which acts as the Group's internal bank. Financial management covers all Group companies in which TUI AG directly or indirectly holds an interest of more than 50 %. It is based on policies covering all cash flow-oriented aspects of the Group's business activities. In the framework of a cross-national division of tasks within the organisation, TUI AG has outsourced some of the operating finance operations to First Choice Holidays Finance Ltd, TUI Travel's former financing company. However, the operating finance operations are carried out on a coordinated and centralised basis.

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

### LIQUIDITY SAFEGUARDS
The Group's liquidity safeguards consist of two components:

- In the course of the annual Group planning process, TUI draws up a multi-annual finance budget, which forms the basis to determine the long-term financing and refinancing requirements. Using this information and observing the financial markets in order to identify refinancing opportunities create a basis for decision-making to enable appropriate financing instruments for the long-term funding of the Company to be adopted early on.

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

### LIMITING FINANCIAL RISKS

The Group companies operate on a worldwide scale. This gives rise to financial risks for the TUI Group, mainly from changes in exchange rates, commodity prices and interest rates.

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

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

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

*Risk report see from page 49*
*Financial instruments see from page 233*

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



## Capital structure

**CAPITAL STRUCTURE OF THE GROUP**

| € million | 30 Sep 2016 | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Non-current assets | 9,131.8 | 9,614.0 | – 5.0 |
| Current assets | 5,326.1 | 4,472.5 | + 19.1 |
| **Assets** | **14,457.9** | **14,086.5** | **+ 2.6** |
| Subscribed capital | 1,500.7 | 1,499.6 | + 0.1 |
| Reserves including net profit available for distribution | 1,174.4 | 413.8 | + 183.8 |
| Non-controlling interest | 573.1 | 503.9 | + 13.7 |
| **Equity** | **3,248.2** | **2,417.3** | **+ 34.4** |
| Non-current financial liabilities | 2,213.3 | 1,860.8 | + 18.9 |
| Current provisions | 415.4 | 495.8 | – 16.2 |
| **Provisions** | **2,628.7** | **2,356.6** | **+ 11.5** |
| Non-current liabilities | 1,503.4 | 1,653.3 | – 9.1 |
| Current financial liabilities | 537.7 | 233.1 | + 130.7 |
| **Financial liabilities** | **2,041.1** | **1,886.4** | **+ 8.2** |
| Other non-current financial liabilities | 272.7 | 456.1 | – 40.2 |
| Other current financial liabilities | 5,794.9 | 6,938.6 | – 16.5 |
| **Other financial liabilities** | **6,067.6** | **7,394.7** | **– 17.9** |
| **Debt related to assets held for sale** | **472.3** | **31.5** | **n. a.** |
| **Liabilities** | **14,457.9** | **14,086.5** | **+ 2.6** |

**CAPITAL RATIOS**

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Non-current capital | 7,237.6 | 6,387.5 | +13.3 |
| Non-current capital in relation to balance sheet total | 50.1 | 45.3 | +4.7* |
| Equity ratio | 22.5 | 17.2 | +5.3* |
| Equity and non-current financial liabilities | 4,751.6 | 4,070.6 | +16.7 |
| Equity and non-current financial liabilities in relation to balance sheet total | 32.9 | 28.9 | +4.0* |
| Gearing | 41.9 | 48.7 | –6.8* |

* percentage points

Overall, non-current capital increased by 13.3 % to € 7,237.6 m. As a proportion of the balance sheet total it amounted to 50.1 % (previous year 45.3 %).

The equity ratio was 22.5 % (previous year 17.2 %). Equity and non-current financial liabilities accounted for 32.9 % (previous year 28.9 %) of the balance sheet total at the reporting date.

The gearing, i.e. the ratio of average net debt to average equity, moved to 41.9 %, down from the previous year (48.7 %).

## EQUITY

**COMPOSITION OF EQUITY**

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Subscribed capital | 1,500.7 | 1,499.6 | +0.1 |
| Capital reserves | 4,192.2 | 4,187.7 | +0.1 |
| Revenue reserves | –3,017.8 | –3,773.9 | +20.0 |
| Non-controlling interest | 573.1 | 503.9 | +13.7 |
| **Equity** | **3,248.2** | **2,417.3** | **+34.4** |

Subscribed capital and the capital reserves rose slightly year-on-year. The increase of 0.1 % each was driven by the issue of employee shares. Revenue reserves rose by € 756.1 m to €– 3,017.8 m. Non-controlling interests accounted for € 573.1 m of equity.

## PROVISIONS

Provisions mainly comprise provisions for pension obligations, current and deferred 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 € 2,628.7 m, up by € 272.1 m or 11.5 % year-on-year.

## FINANCIAL LIABILITIES

**COMPOSITION OF LIABILITIES**

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Bonds | 306.5 | 293.7 | +4.4 |
| Liabilities to banks | 410.8 | 494.1 | –16.9 |
| Liabilities from finance leases | 1,231.7 | 982.0 | +25.4 |
| Other financial liabilities | 92.1 | 116.6 | –21.0 |
| **Financial liabilities** | **2,041.1** | **1,886.4** | **+8.2** |

### STRUCTURAL CHANGES IN FINANCIAL LIABILITIES

The Group's financial liabilities rose by a total of € 154.7 m to € 2,041.1 m, in particular due to the increase in finance leases. The change was driven in particular by the acquisition of a new Boeing B787-9 aircraft, which was refinanced by means of a sale-and-lease-back arrangement via finance leases as well as a cruise ship financed by a finance lease arrangement. Apart from that, the structure of financial liabilities was basically retained.

### OVERVIEW OF TUI'S LISTED BONDS

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

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

**LISTED BONDS**

| Capital measures | Issuance | Maturity | Nominal value initial € million | Nominal value outstanding € million | Interest rate % p.a. |
|---|---|---|---|---|---|
| Senior Notes 2014[1] | September 2014 | October 2019 | 300.0 | 300.0 | 4.500 |
| Senior Notes 2016[2] | October 2016 | October 2021 | 300.0 | 300.0 | 2.125 |

1 Early termination and repayment on 18 November 2016
2 Not included in the consolidated financial statements

### BANK LOANS AND OTHER LIABILITIES FROM FINANCE LEASES

Apart from the bonds worth € 300.0 m, used for general corporate financing, the Hotels & Resorts segment, in particular, incurred separate bank loans, primarily in order to finance investments by these companies. Most liabilities from finance lease contracts are attributable to aircraft leases.

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

*See Notes page 244*

### OTHER FINANCIAL LIABILITIES

Other liabilities totalled € 6,067.6 m, down by € 1,327.1 m or 17.9 % year-on-year.

## Off-balance sheet financial instruments and key credit facilities

### OPERATING LEASES

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

*See page 86*

More detailed explanations and information on the structure of the remaining terms of the associated financial liabilities are provided in the section Other financial liabilities in the Notes to the consolidated financial statements. There were no contingent liabilities related to special-purpose vehicles.

### SYNDICATED CREDIT FACILITIES OF TUI AG

TUI AG signed a syndicated credit facility worth € 1.75 bn in September 2014. This syndicated credit facility is available for general corporate financing purposes (in particular in the winter months). It carries a floating interest rate which depends on the short-term interest rate level (EURIBOR or LIBOR) and TUI's credit rating plus a margin. This syndicated credit facility was originally to mature in June 2018, but in the financial year under review, its maturity was extended ahead of the due date to December 2020. At the balance sheet date, an amount of € 120.5 m from this credit facility had been utilised in the form of bank guarantees.

### BILATERAL GUARANTEE FACILITIES OF TUI AG WITH INSURANCE COMPANIES

In September 2015 and in the completed financial year, TUI AG concluded several bilateral guarantee facilities with various insurance companies with a total volume of £ 98.5 m and € 100.0 m. These guarantee facilities are required in the framework of the delivery of tourism services in order to ensure that Group companies are able to meet, in particular, the requirements of European oversight and regulatory authorities on the provision of guarantees and warranties. The guarantees granted usually have a term of 12 to 18 months. The guarantees granted give rise to a commission in the form of a fixed percentage of the maximum guarantee amount. At the balance sheet date, an amount of £ 48.6 m and € 43.0 m from these guarantee facilities had been utilised.

## Commitments in financing instruments

The € 300.0 m bond from October 2016 (and the bond worth € 300.0 m from September 2014, repaid in November 2016) and the credit and guarantee facilities of TUI AG contain a number of obligations.

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

The bond worth € 300.0 m from October 2016 (and the bond worth € 300.0 m from September 2014, repaid in November 2016) and the credit and guarantee facilities of TUI AG also contain additional contractual clauses typical of financing instruments of this type. Non-compliance with these obligations awards the lenders the right to call in the facilities or terminate the financing schemes for immediate repayment.

## Ratings by Standard & Poor's and Moody's

TUI AG RATINGS

| | 2011 / 12 | 2012 / 13 | 2013 / 14 | 2014 / 15 | **2015 / 16** | Outlook |
|---|---|---|---|---|---|---|
| Standard & Poor's | B – | B | B+ | BB – | BB – | positive |
| Moody's | B3 | B3 | B2 | Ba3 | Ba2 | stable |

Due to the level of certain metrics relevant for the credit rating in financial year 2014 / 15 and the Company's goal to further improve these metrics, Standard & Poor's assigned a "positive" outlook to the corporate rating ("BB –") in February 2016. In the light of improved metrics and the resilience shown in facing negative geopolitical events, Moody's also upgraded its corporate rating from "Ba3" to "Ba2" in April 2016.

TUI AG's bonds worth € 300.0 m from September 2014 was and TUI AG's bonds worth € 300.0 m from October 2016 are assigned a "BB –" rating by Standard & Poor's and a "Ba2" rating by Moody's. TUI AG's syndicated credit facility worth € 1.75 bn is assigned a "BB –" rating by Standard & Poor's.

## Financial stability targets

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

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

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

These basic definitions are subject to specific adjustments in order to reflect current circumstances.

For the completed financial year, the leverage ratio was 3,3(x), while the coverage ratio was 4,8(x). We aim to achieve a leverage ratio between 3.25(x) and 2.50(x) and a coverage ratio between 4.75(x) and 5.75(x) for financial year 2016 / 17.

## Interest and financing environment

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

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

TUI also took advantage of the sound condition of the syndicated credit market in order to extend the maturity of TUI AG's syndicated credit facility worth € 1.75 bn to December 2020 ahead of the due date.

In the completed financial year, no major new large-volume financing schemes were incurred apart from a refinancing of a collateralised aircraft financing scheme and finance lease contracts.

## Liquidity analysis

### LIQUIDITY RESERVE

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

At the balance sheet date, cash and cash equivalents of TUI AG, TUI Group's parent company, totalled € 637.0 m.

### RESTRICTIONS OF THE TRANSFER OF LIQUID FUNDS

At the balance sheet date, there were restrictions worth around € 0.1 bn on the transfer of liquid funds within the Group that might significantly impact the Group's liquidity, such as restrictions on capital movements and restrictions due to credit agreements concluded.

### CHANGE OF CONTROL

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

*See chapter Information required under takeover law, from page 109*

## Cash flow statement

**SUMMARY CASH FLOW STATEMENT**

| € million | **2015/16** | 2014/15 |
|---|---|---|
| Net cash inflow from operating activities | +1,034.7 | +790.5 |
| Net cash in-/outflow from investing activities | +239.0 | – 216.8 |
| Net cash outflow from financing activities | – 662.1 | –1,116.7 |
| **Change in cash and cash equivalents with cash effects** | **+ 611.6** | **– 543.0** |

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

### NET CASH INFLOW FROM OPERATING ACTIVITIES

In the financial year under review, the cash inflow from operating activities amounted to € 1,034.7 m (previous year € 790.5 m). It included interest of € 21.1 m and dividends of € 84.7 m in the reporting period. A cash outflow of € 186.4 m resulted from income tax payments. Tax payments of € 94.9 m in connection with the sale of Hotelbeds Group were included in the cash inflow from investing activities.

### NET CASH OUTFLOW/INFLOW FROM INVESTING ACTIVITIES

In the financial year under review, the cash inflow from investing activities including the payments received for the sale of Hotelbeds Group totalled € 239.0 m (previous year cash outflow of € 216.8 m). The cash outflow of € 605.6 m for capital expenditure related to property, plant and equipment and intangible assets primarily included 243.1 m for tour operators and airlines and € 262.3 m for Hotels & Resorts. The cash inflow from the disposal of property, plant and equipment and intangible assets totalled € 72.2 m. The cash outflows for capital expenditure on property, plant and equipment and intangible assets and the corresponding cash inflows do not match the additions and disposals shown in the development of fixed assets, as these also include the non-cash investments and disposals.

### NET CASH OUTFLOW FROM FINANCING ACTIVITIES

In the period under review, the cash outflow from financing activities declined by € 454.6 m year-on-year to € 662.1 m.

Major cash outflows resulted from the repayment of finance lease obligations (€ 78.1 m) and other financial liabilities (197.3 m), interest payments (€ 92.3 m) and dividend payments to TUI AG shareholders (€ 327.0 m).

**CHANGE IN CASH AND CASH EQUIVALENTS**

| € million | **2015/16** | 2014/15 |
|---|---|---|
| **Cash and cash equivalents at the beginning of period** | **+1,682.2** | **+ 2,258.0** |
| Changes due to changes in exchange rates | +105.8 | – 33.1 |
| Change in cash and cash equivalents due to changes in the group of consolidated companies | + 4.0 | + 0.3 |
| Cash changes | + 611.6 | – 543.0 |
| **Cash and cash equivalents at the end of period** | **+ 2,403.6** | **+1,682.2** |

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

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

*See Cash flow statement page 152, Notes to the cash flow statement see page 248*

## Analysis of investments

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

### ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

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

**NET CAPEX AND INVESTMENTS**

| € million | **2015/16** | 2014/15 restated | Var. % |
|---|---|---|---|
| Northern Region | 86.4 | 69.9 | +23.6 |
| Central Region | 20.6 | 23.6 | –12.7 |
| Western Region | 21.6 | 23.5 | –8.1 |
| Hotels & Resorts | 262.3 | 173.3 | +51.4 |
| Cruises | 10.7 | 88.5 | –87.9 |
| Other Tourism | 101.0 | 102.2 | –1.2 |
| Tourism | 502.6 | 481.0 | +4.5 |
| All other segments | 20.8 | 45.7 | –54.5 |
| **TUI Group** | **523.4** | **526.7** | **–0.6** |
| Discontinued operations | 82.2 | 75.3 | +9.2 |
| **Sum of the segments** | **605.6** | **602.0** | **+0.6** |
| Net pre delivery payments on aircraft | 48.7 | –11.9 | n.a. |
| Financial investments | 132.0 | 158.0 | –16.5 |
| Divestments (without proceeds from Hotelbeds sale) | –95.3 | –89.1 | –7.0 |
| **Net capex and investments** | **691.0** | **659.0** | **+4.9** |

Investments in other intangible assets and property, plant and equipment totalled €605.6m in the period under review, up 0.6% year-on-year.

In the period under review, investments mainly related to the construction of hotels in the Caribbean, Mexico and the Mediterranean, the development and launch of new booking and reservation systems and down payments on ordered aircraft. Investments were also effected for renovation and maintenance in all areas.

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

**RECONCILIATION OF CAPITAL EXPENDITURE**

| € million | **2015/16** | 2014/15 restated |
|---|---|---|
| **Capital expenditure** | **605.6** | **602.0** |
| Debt financed investments | – | 211.0 |
| Finance leases | 315.5 | 477.4 |
| Advance payments | 91.8 | 224.4 |
| Additions to the group of consolidated companies | 2.7 | 8.6 |
| Additions to discontinued operations | –20.6 | – |
| **Additions to other intangible assets and property, plant and equipment** | **995.0** | **1,523.4** |

**AMORTISATION (+)/WRITE-BACKS (–) OF OTHER INTANGIBLE ASSETS AND DEPRECIATION (+)/WRITE-BACKS (–) OF PROPERTY, PLANT AND EQUIPMENT**

| € million | 2015/16 | 2014/15 | Var. % |
|---|---|---|---|
| Northern Region | 94.2 | 105.9 | –11.0 |
| Central Region | 22.7 | 28.2 | –19.5 |
| Western Region | 25.8 | 20.3 | +27.1 |
| Hotels & Resorts | 95.0 | 113.0 | –15.9 |
| Cruises | 19.3 | 17.1 | +12.9 |
| Other Tourism | 60.7 | 64.7 | –6.2 |
| **Tourism** | **317.7** | **349.2** | **–9.0** |
| All other segments | 89.3 | 71.0 | +25.8 |
| **TUI Group** | **407.0** | **420.2** | **–3.1** |
| Discontinued operations | 70.9 | 132.5 | –46.5 |
| **Sum of the segments** | **477.9** | **552.7** | **–13.5** |

## Investment obligations

### ORDER COMMITMENTS

Due to agreements concluded in financial year 2015/16 or in prior years, order commitments for investments totalled €4,786.7 m; this total includes an amount of €657.1 m for scheduled deliveries in financial year 2016/17.

At the balance sheet date, order commitments for aircraft comprised 73 planes (3 B787s and 70 B737s), to be delivered by the end of financial year 2022/23. Delivery of one aircraft has been scheduled for financial year 2016/17.

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



# Sustainable development

## Commitment to sustainability: responsibility for the environment, society and our people

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

## Better Holidays, Better World

In 2015, TUI Group presented its sustainability strategy for the period until 2020. The strategy was devised with the involvement of managers from across the business operations and fine-tuned in cooperation with international stakeholders (e.g. non-governmental organisations, partners, customers and academics).

⊕ *More on TUI's sustainability strategy at www.tui-sustainability.com*

Under the title "Better Holidays, Better World", TUI's sustainability efforts comprise three major ambitions: "step lightly", "make a difference" and "lead the way".

## TUI'S SUSTAINABILITY STRATEGY 2015 – 2020

**better**holidays
**better**world

| **step** lightly | **make** a difference | **lead** the way |
| --- | --- | --- |
| **Reducing the environmental impact of holidays** | **Creating positive change for people and communities** | **Pioneering sustainable tourism across the world** |

**AMBITIONS BY 2020**

| | | |
| --- | --- | --- |
| We will operate Europe's most carbon-efficient airlines and reduce the carbon intensity of our operations by 10 % by 2020. | We will deliver 10 m greener and fairer holidays per year by 2020, enabling more local people to share in the benefits of tourism. | We will invest € 10 m per year by 2020, to support good causes and enhance the positive impacts of tourism, using the TUI Care Foundation to support this work. |

**COMMITMENTS BY 2020**

1. We will drive environmental improvements across our aviation operations.
2. We will drive environmental improvements across our cruise operations.
3. We will drive environmental improvements across our ground operations.
4. We will work with hotel suppliers to increase their positive impact on the local community and to protect the environment.
5. We will showcase world-class sustainability standards across our own TUI hotels and concept partner hotels.
6. We will help customers and colleagues to create positive change.
7. We will innovate for a more sustainable future for tourism, and share our findings with the industry.
8. We will invest in youth, tourism skills and education to create employment opportunities in our source markets and destinations.
9. We will collaborate with destinations on the sustainable management of tourism.

Our goal is to make positive contributions towards sustainable environmental and social development, both in the host countries and at our home markets. We also consistently work to prevent and minimise any negative impacts from our business activities on our natural and social environment. To play our part in shaping the future of sustainable tourism, TUI invests in young people, skills and tourism training programmes, and works in partnership with the destination markets.

In the period under review, our strategy was implemented more broadly within our Group, and the first results were measured. In July 2016, TUI Group published its first status report on "Better Holidays, Better World". The report is available for download on the Group's website. It offers comprehensive information about our goals, activities, progress and metrics in the field of sustainability.

⊕ *Report online at*
*www.tuigroup.com/en-en/sustainability/reporting-downloads*

## TUI Care Foundation

A further key milestone was the Group-wide launch of TUI Care Foundation in the period under review. It pools and expands the social commitment expressed across TUI Group. TUI Care Foundation operates globally but always focuses on the local situation. It thus builds on strong partnerships with regional and international organisations in order to create sustainable, positive change. The non-profit foundation has committed to transparency and an efficient use of funds. 100 % of the donations go to projects and project partnerships, with all overhead costs for the foundation covered by TUI.

*More on TUI Care Foundation in the Magazine on page 58 and on the Internet at www.tuicarefoundation.com*

The TUI Care Foundation supports projects for children and young people, nature conservation and environmental protection, and development for destinations, e. g. through education and training.

Current projects and initiatives are regularly published on our website. In addition, many TUI Group companies describe their sustainability activities in detail on their local websites and integrate sustainability information into customer communication.

*Current projects and initiatives at www.tui-sustainability.com*

## Sustainability indices

In September 2016, TUI AG was once again listed in the renowned Dow Jones Sustainability Index (DJSI) for the eleventh time in succession. TUI is the only tourism group admitted to the World and Europe indices. TUI is also listed as industry leader. At this year's review of the composition of the index, TUI achieved particularly high scores in the categories Corporate Citizenship, Climate Strategy and Eco-Efficiency.

TUI AG is also represented in the sustainability indexes FTSE4Good, STOXX Global ESG Leaders Index, Ethibel Excellence Index and ECPI Ethical Index €uro. TUI is listed in the Climate Disclosure Leadership Index (CDLI) in the UK and in Germany.

## The environment

Respecting the environment in our products, services and processes is an essential feature of our quality standards. Conserving natural resources and mitigating negative environmental impacts secure TUI's success. We place priority on climate protection, resource efficiency and biodiversity.

### GROUP-WIDE ENVIRONMENTAL MONITORING

Group-wide processes to monitor environmental performance and determine meaningful indicators were further pursued in financial year 2015 / 16. These are based on internationally acknowledged standards such as the Greenhouse Gas Protocol. Group-wide monitoring focuses on business activities impacting the environment and is used as a control parameter to improve environmental performance.

To establish the relevant indicators, our businesses use an internal system to report their consumption and activities on an annual basis. The quantitative data is then consolidated at Group level and aggregated into metrics. A web-based system is used to further enhance data quality and increase the efficiency of the data capture process for the companies concerned.

### FOCUS ON CLIMATE PROTECTION AND EMISSIONS

Our special focus is on improving carbon emissions, in particular by the TUI Group's airlines, which account for more than 80 % of our $CO_2$ emissions.

*Details about our carbon footprint can be found in TUI Group's Sustainability Report at www.tui-sustainability.com*

**CARBON DIOXIDE EMISSIONS ($CO_2$)**

| tons | 2015 / 16 | 2014 / 15 | Var. % |
|---|---|---|---|
| Airlines & Aviation | 5,842,427 | 5,615,386 | + 4.0 |
| Hotels & Resorts | 510,719 | 510,492 | + 0.0 |
| Cruises | 686,791 | 639,119 | +7.5 |
| Major Premises / Shops | 32,617 | 38,115 | –14.4 |
| Ground Transport | 17,751 | 17,761 | – 0.1 |
| Scope 3 (Other) | 71,713 | 68,403 | + 4.8 |
| **Group** | **7,162,018** | **6,889,276** | **+ 4.0** |

In financial year 2015 / 16, TUI Group's total emissions rose year-on-year in absolute terms, primarily due to growth in its airlines and aviation segment. The increase in absolute carbon emissions in Cruises of 7.5 % is mainly driven by the launch of Mein Schiff 5, operated by TUI Cruises, and the inclusion of Mein Schiff 4 for a full financial year. Emissions from offices and retail shops declined significantly, driven partly by more efficient energy use.

CORPORATE GOVERNANCE
CONSOLIDATED FINANCIAL STATEMENTS
FURTHER INFORMATION

## CLIMATE PROTECTION BY TUI AIRLINES

We already operate one of Europe's most carbon-efficient airlines. $CO_2$ emissions by TUI airlines are 30 % below the average for the entire sector. TUI Airlines have launched numerous measures to secure our top position and further enhance the efficiency of aircraft.

Apart from continuous renewal of our aircraft fleet, we have launched the following measures to support our efficiency goals:

- Fitting our aircraft with split scimitar winglets and blended winglets to save fuel
- Process optimisation, e. g. single-engine taxiing
- Weight reduction, e. g. by means of lighter trolleys and seats, use of iPads, introduction of carbon brakes and optimisation of on-board water and goods volumes
- Washing engines, using lighter paint and surface sealants to prevent soiling and further improving aircraft aerodynamics
- Replacing fluorescent lamps in aircraft cabins by LEDs

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

In the Atmosfair Airline Index 2015 TUI fly Germany was named "most climate-efficient airline in the world" for the third consecutive time. Thomson Airways took second place as the "most climate-efficient airline in the world in the medium- and long-haul segment".

The ecoDemonstrator project carried out in collaboration with Boeing and NASA to test new technologies aimed at reducing $CO_2$ and noise emissions was successfully completed in the period under review. The tests included special coatings for aircraft wings to protect the leading edge from insect soiling. This reduces the aerodynamic drag of the aircraft. After the end of the series of test flights, the aircraft was dismantled and 90 % of its parts recycled by means of new methods.

In our sustainability strategy "Better Holidays, Better World", we set ourselves the goal to defend our position as Europe's most emission-efficient airline fleet. We also aim to reduce the $CO_2$ intensity of our global operations, including TUI's airlines, by 10 % by 2020: We aim to reduce specific $CO_2$ emissions (g $CO_2$ / PKM) by 10 % (baseline 2013 / 14).

### TUI AIRLINES – FUEL CONSUMPTION AND RELATED EMISSIONS

| | | **2015 / 16** | 2014 / 15[2] | Var. % |
|---|---|---|---|---|
| Specific fuel consumption | l / 100 rpk[1] | 2.65 | 2.62 | + 1.2 |
| Carbon dioxide ($CO_2$) – total | t | 5,277,065 | 5,034,264 | + 4.8 |
| Carbon dioxide ($CO_2$) – specific | kg / 100 rpk[1] | 6.68 | 6.60 | + 1.2 |
| Nitrogen oxide (NOX) – total | t | 29,417 | 30,754 | – 4.3 |
| Nitrogen oxide (NOX) – specific | g / 100 rpk[1] | 37.34 | 41.38 | – 9.8 |
| Carbon monoxide (CO) – total | t | 1,583 | 1,523 | + 3.9 |
| Carbon monoxide (CO) – specific | g / 100 rpk[1] | 2.00 | 2.05 | – 2.4 |
| Hydrocarbon (HC) – total | t | 142 | 130 | + 9.2 |
| Hydrocarbon (HC) – specific | g / 100 rpk[1] | 0.18 | 0.17 | + 5.9 |

1 rpk = Revenue Passenger Kilometre
2 Presentation of the nitrogen oxide, carbon monoxide and hydrocarbon emissions for financial year 2014 / 15 is based on total fuel burn.

Specific fuel consumption and specific emissions rose slightly in the period under review. This is attributable to changes in the fleet's load factor and a higher frequency of short-haul flights.

**TUI AIRLINES – CARBON INTENSITY**

| | | **2015/16** | 2014/15 | Var. % | g $CO_2e$/rpk* |
|---|---|---|---|---|---|
| **TUI Airline fleet** | **g $CO_2$/rpk*** | **66.8** | **66.0** | **+1.2** | **67.5** |
| Corsair International | g $CO_2$/rpk* | 82.4 | 79.8 | +3.3 | 83.2 |
| Thomson Airways | g $CO_2$/rpk* | 63.8 | 63.7 | +0.2 | 64.4 |
| TUI fly Belgium | g $CO_2$/rpk* | 71.4 | 69.6 | +2.6 | 72.1 |
| TUI fly Germany | g $CO_2$/rpk* | 64.4 | 63.4 | +1.6 | 65.0 |
| TUI fly Netherlands | g $CO_2$/rpk* | 64.1 | 63.8 | +0.5 | 64.7 |
| TUI fly Nordic | g $CO_2$/rpk* | 61.4 | 60.6 | +1.3 | 62.0 |

* rpk = Revenue Passenger Kilometre
We have requested PwC, TUI Group's auditors, to provide assurance on the carbon intensity metrics displayed in the table "TUI Airlines – Carbon intensity" above. To read our airline carbon data methodology document and PwC's Assurance Report in full, please visit www.tuigroup.com/en-en/sustainability/reporting-downloads

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

**CLIMATE PROTECTION IN CRUISES**

In 2016, TUI Cruises launched Mein Schiff 5. Like her sister ships Mein Schiff 3 and Mein Schiff 4, the newbuild is 30 % more energy efficient than comparable vessels. The ships save fuel through a combination of the latest technologies. A smart energy management system, efficient air conditioning, innovative lighting controls and the use of waste heat from the engines all contribute to a significantly reduced carbon footprint. Sulphur emissions from the newbuilds in the fleet are also 90 % lower thanks to new systems that treat exhaust fumes before releasing them. Moreover, the average sulphur content of fuel was considerably reduced year-on-year. In the period under review, it stood at 1.16 %.

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

The ships are fitted with advanced emission purification systems, which operate around the clock worldwide – even outside Emission Control Areas, where use of scrubbers when using heavy fuel oil has been required since 2015.

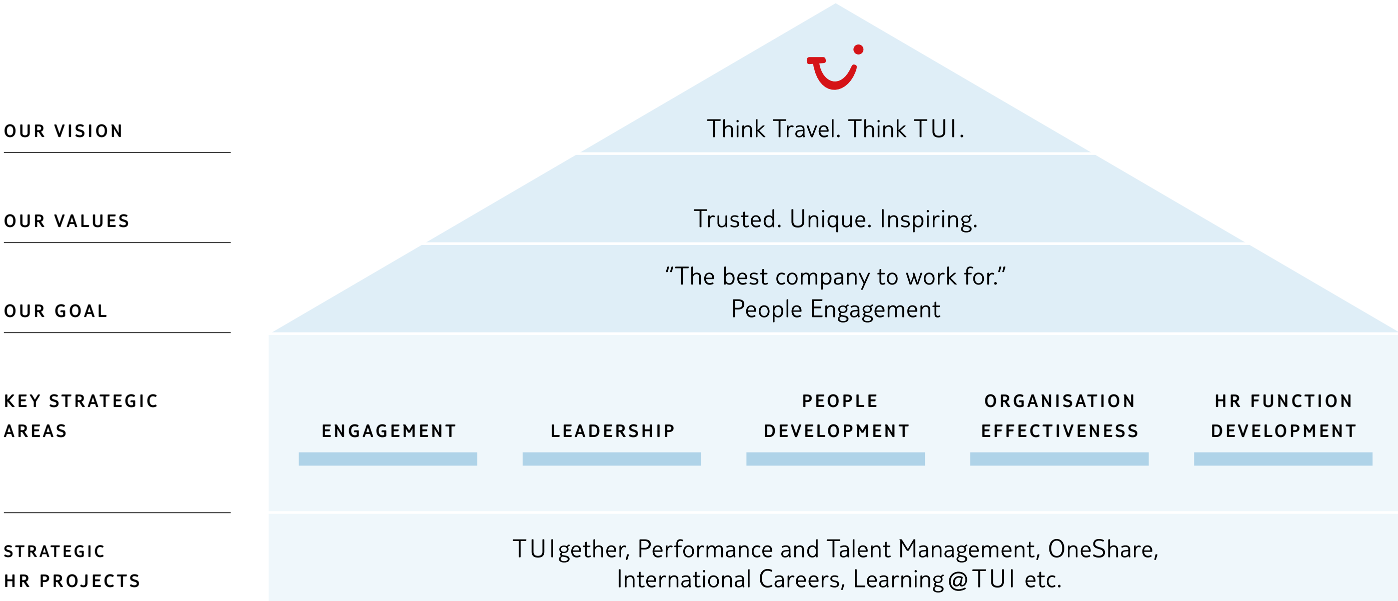
At Hapag-Lloyd Cruises, the expedition ships Hanseatic and Bremen were fitted with new zodiacs in the period under review. These motor-driven rubber boats are equipped with Torqueedo electric motors in order to reduce air and noise emissions. Hapag-Lloyd Cruises is the first provider of expedition cruises to use this environmentally friendly technology.

# Human resources

We successfully operate in a dynamic, challenging environment with around 67,000 employees worldwide. In financial year 2015 / 16, the new Group HR Strategy was developed in conjunction with the global HR Leadership Team in order to ensure lasting achievement of our goal – long-term success. Apart from anchoring joint corporate values, the focus is on the five strategic key areas Engagement, Leadership, People Development, Organisational Effectiveness and HR Function Development. For each of these pillars, specific projects have been defined so that TUI Group's cultural transformation can be experienced by managers and employees. The 15 projects are all in different implementation stages and will be the focus of our activities in the next few years.

One of the key cornerstones in the strategic HR process and towards cultural integration is our employee survey TUIgether. Our first survey was carried out in September 2015. We invited our employees in more than 100 countries with 18 languages to give us their feedback. The response rate was 66 %. In our first employee survey, we achieved an Engagement Index of 73. We followed up on the results in a well-defined process and agreed to implement around 5,000 measures across all levels. In the second employee survey, carried out in September 2016, the response rate rose by around 10 percentage points to 77 %, while the Engagement Index climbed to 77.

#### THE NEW TUI GROUP HR STRATEGY




## Changes in headcount

At the balance sheet date, TUI Group's worldwide headcount was 66,779, down 12.2 % 0year-on-year. This is primarily due to the disposal of Hotelbeds Group.

In the period under review, the headcount strongly reflected the seasonal employment structures, in particular in hotels and incoming agencies. Tourism continues to employ the largest number of Group employees.

#### PERSONNEL BY SEGMENT

| | **30 Sep 2016** | 30 Sep 2015 restated | Var. % |
|---|---|---|---|
| Northern Region | 14,943 | 14,518 | + 2.9 |
| Central Region | 11,741 | 12,167 | – 3.5 |
| Western Region | 5,631 | 5,431 | + 3.7 |
| Hotels & Resorts | 24,363 | 24,373 | – 0.0 |
| Cruises | 246 | 232 | + 6.0 |
| Other Tourism | 4,573 | 4,806 | – 4.8 |
| **Tourism** | **61,497** | **61,527** | **– 0.0** |
| All other segments | 1,744 | 1,322 | + 31.9 |
| **TUI Group** | **63,241** | **62,849** | **+ 0.6** |
| Discontinued operations | 3,538 | 13,187 | –73.2 |
| **Total** | **66,779** | **76,036** | **–12.2** |

#### TOURISM

At the end of financial year 2015 / 16, the headcount in Tourism was almost flat year-on-year at 61,497. The individual segments recorded different trends.

#### NORTHERN REGION

Northern Region reported a year-on-year increase in headcount of 2.9 % to 14,943. This increase mainly resulted from recruitment in tour operation and the UK airline. On the other hand, Crystal Ski reported a slight reduction.

#### CENTRAL REGION

At the balance sheet date, Central Region recorded a headcount of 11,741, down 3.5 % year-on-year. The decline was driven by lower staffing numbers in Austria, Switzerland and Poland and in tour operation in Germany. In addition, 375 employees were transferred from TUI Customer Operations to TUI Business Services GmbH, a wholly owned subsidiary of TUI AG, in the period under review in order to further develop an international, source market-independent shared service platform. On the other hand, the headcount increased in the retail segment in Germany and at TUI Service AG.

#### WESTERN REGION

Western Region saw an increase in headcount of 3.7 % to 5,631, primarily due to the increase in staffing numbers in tour operation in France, the Netherlands and Belgium.

#### HOTELS & RESORTS

At the balance sheet date, Hotels & Resorts reported 24,363 employees, flat year-on-year. At 10,775, Riu Group, the largest hotel company in the portfolio, maintained its staffing number roughly at the prior year's level. The increase in staff numbers driven by the opening of new hotel facilities was almost offset by the closure of hotels in Tunisia. Robinson reported an increase in its headcount of 5.9 % to 3,586 due to new acquisitions.

#### CRUISES

The Cruises segment recorded a year-on-year increase in headcount of 6.0 % to 246, driven by the newbuild projects.

#### OTHER TOURISM

Other Tourism reported a decline in headcount of 4.8 % to 4,573, essentially driven by the falling headcount for the TUI Destination Services platform in Turkey, Tunisia and Morocco. The headcount in IT was 434, up 12.7 % year-on-year.

#### ALL OTHER SEGMENTS

All other segments recorded an increase in headcount of 31.9 % to 1,744 year-on-year. In the Corporate Centre, the headcount rose by 86.5 % to 235, mainly due to the integration of Group functions and the creation of new functions. The headcount growth in All other segments was also driven by the first-time inclusion of TUI Business Services GmbH and growth in the longtail platform.

#### DISCONTINUED OPERATION

At the balance sheet date, the headcount in discontinued operations was 73.2 % down versus the prior year from 13,187 to 3,538. This was driven by the sale of Hotelbeds Group and LateRooms Group and the associated non-inclusion of around 9,000 employees. Specialist Group recorded a decline in its headcount of 8.1 % to 3,538, primarily due to the sale of companies such as the language tour operations, not forming part of the Specialist Group companies to be sold in one deal.

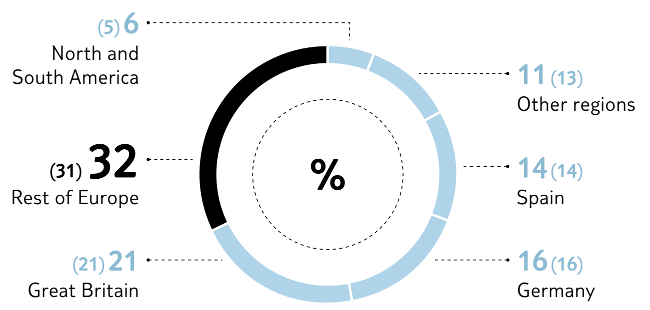
### GLOBAL HEADCOUNT

#### PERSONNEL BY REGION*

| | **30 Sep 2016** | 30 Sep 2015 restated | Var. % |
|---|---|---|---|
| Germany | 10,170 | 10,047 | + 1.2 |
| Great Britain | 13,409 | 13,036 | + 2.9 |
| Spain | 8,967 | 9,115 | – 1.6 |
| Other EU | 19,895 | 19,301 | + 3.1 |
| North and South America | 3,768 | 3,428 | + 9.9 |
| Other regions | 7,032 | 7,922 | – 11.2 |
| **TUI Group** | **63,241** | **62,849** | **+ 0.6** |
| Discontinued operations | 3,538 | 13,187 | – 73.2 |
| **Total** | **66,779** | **76,036** | **– 12.2** |

* By domicile of company

**PERSONNEL BY REGION*** 30 SEPTEMBER 2016




* Excl. employees of the discontinued operations
In brackets: previous year

As a global player, TUI Group operates in around 180 destinations worldwide with its employees. The number of employees working in Germany rose by 1.2 % to 10,170. The Group's headcount in Europe increased by 1.8 % to 52,441, or 82.9 % of the Group's overall headcount. Due to a reduction in the number of employees working in other regions, the headcount in non-European countries declined by 4.8 % to 10,800, or 17.1 % of the overall headcount. The year-on-year change is primarily driven by staff reductions in the destinations Tunisia, Morocco and Egypt.

## Mixed leadership

As at 30 September 2016, the balance sheet date, the share of women as a proportion of the overall headcount was almost flat year-on-year at 56.0 %. The proportion of women in leadership positions decreased slightly from 31.3 % to 29.4 %.

The proportion of women on our German supervisory bodies continued to rise in the period under review. On 30 September 2016, women accounted overall for around 38 % of members, up 8 percentage points year-on-year. At TUI AG, the share of women on the Supervisory Board was already 35 %. The statutory requirements were therefore met.

In Germany, advantage was taken of the self-commitment mechanism provided for under the German Stock Corporation Act (AktG) and the Act on Limited Liability Companies (GmbHG) to fix specific targets for TUI AG, TUI Deutschland and TUI fly in financial year 2014 / 15. In financial year 2015 / 16, implementation of these targets made good progress. At the Executive Board and Management Board levels, the roles of Labour Director within TUI AG and TUI Deutschland were filled with female candidates. In the period under review, additional measures were initiated to promote female executives, in particular at the two management levels below the Executive Board, in the framework of the HR strategy.

**PROPORTION OF WOMEN IN MANAGERIAL POSITIONS** 30 SEPTEMBER 2016

| | TUI AG | | TUI Deutschland | | TUI fly | |
|---|---|---|---|---|---|---|
| % | Actual | Target | Actual | Target | Actual | Target |
| Executive Board | one female | at least one female | 20 | 20 | 0 | 20 |
| First management level below Executive Board | 10 | 20 | 36 | 30 | 40 | 30 |
| Second management level below Executive Board | 22 | 30 | 40 | 40 | 44 | 40 |

**OTHER STAFF INDICATORS**

| % | TUI Group 30 Sep 2016 | TUI Group 30 Sep 2015 | Germany 30 Sep 2016 | Germany 30 Sep 2015 |
|---|---|---|---|---|
| **Employment structure** | | | | |
| Number of employees | 66,779 | 76,036 | 10,170 | 10,047 |
| Employees – female | 56.0 | 56.2 | 68.5 | 68.2 |
| Females in managerial positions | 29.4 | 31.3 | 32.8 | 32.6 |
| Employees in part-time, total | 18.8 | 19.7 | 36.4 | 35.8 |
| Employees in part-time, female | 28.8 | 28.7 | 46.1 | 44.7 |
| Employees – fixed-term employment contract | 33.1 | 30.8 | 15.5 | 16.0 |
| **Age structure** | | | | |
| Employees up to 20 years | 5.3 | 5.4 | 2.9 | 3.0 |
| Employees 21 – 30 years | 30.1 | 29.3 | 20.1 | 19.6 |
| Employees 31 – 40 years | 27.1 | 28.1 | 24.2 | 25.5 |
| Employees 41 – 50 years | 23.9 | 23.0 | 31.4 | 31.8 |
| Employees more than 50 years | 13.6 | 14.2 | 21.4 | 20.1 |
| **Average company affiliation** | | | | |
| up to 5 years | 54.3 | 56.9 | 33.2 | 33.0 |
| 6 – 10 years | 15.8 | 17.0 | 13.3 | 14.5 |
| 11 – 20 years | 20.2 | 17.8 | 31.8 | 32.5 |
| 21 – 30 years | 7.6 | 6.6 | 16.9 | 15.2 |
| more than 30 years | 2.1 | 1.7 | 4.8 | 4.8 |
| **Vocational training in Germany** | | | | |
| Number of trainees | | | 569 | 576 |
| Trainees – female | | | 79.3 | 80.6 |
| Training rate | | | 5.7 | 5.8 |
| Number of trainees gained certification in finanical year | | | 183 | 171 |
| Hiring rate | | | 70.5 | 67.8 |

## Personnel costs

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

In the period under review, the TUI Group's personnel costs declined by 1.4 % to € 2,272.0 m. The year-on-year decrease in expenses for wages and salaries was mainly attributable to foreign exchange effects and higher expenses incurred in the prior year in connection with restructuring measures. Moreover, expenses for share-based payments carried in administrative expenses declined year-on-year due to changes in the structure of remuneration models and the development of the share price. An opposite trend was reported by the operating areas, in particular airlines and hotels, some of which recorded a year-on-year increase in personnel costs. This trend is reflected in a slight overall increase in the cost of sales.

**PERSONNEL COSTS**

| € million | 2015 / 16 | 2014 / 15 restated | Var. % |
|---|---|---|---|
| Wages and salaries | 1,846.7 | 1,869.7 | – 1.2 |
| Social security contributions | 425.3 | 435.7 | – 2.4 |
| **Total** | **2,272.0** | **2,305.4** | **– 1.4** |

### PENSION SCHEMES

The companies in the TUI Group offer their employees benefits from the company-based pension schemes funded by the employer. Options for the employees include pension schemes, direct insurance contracts and individual or direct commitments to build up a private pension. These schemes were devised so as to take advantage of fiscal and social security co-sponsorship opportunities. To enable their employees to convert their gross pay into pension contributions, TUI AG has concluded advantageous collective contracts with an established insurance undertaking, and all our German employees can sign up to these.

### PART-TIME EARLY RETIREMENT

In order to further increase the flexibility of their company HR and succession planning, Group companies in Germany are able to make use of the opportunities provided under the German Part-Time Early Retirement Act to shift gradually from employment to retirement. At the balance sheet date, € 9.6 m was provided through a capital investment model for the 180 employees working under part-time early retirement contracts in order to hedge their accrued assets against employer insolvency.

### SECURITY, HEALTH & SAFETY

In the framework of the integration process, Security, Health & Safety has been integrated across all companies and further expanded. The goal of the new structure is to guarantee comprehensive Group-wide safety management based on common safety standards, and coordinated workflows ensuring networked, aligned action. The analyses performed under this Group-wide safety management system provide the basis for the definition of prevention measures, framework concepts and guidelines for action in Security, Health & Safety, which are used across the Group. The effectiveness of these measures is continually evaluated.

In addition, well-coordinated event and crisis management ensures that rapid, structured and comprehensive support is provided to our customers and employees if needed, drawing on the resources and experience of a globally operating tourism group. To this end, TUI has established a structure including crisis centres that coordinate all measures required in the event of an incident, emergency care teams to support our guests locally in emergency and crisis situations, and close contacts with the foreign offices in the source markets and foreign ministries worldwide. TUI benefits from the interdisciplinary networking of expertise in different areas. Our employees contribute the experience they have gained in tourism, crisis management and security agencies to TUI Group's integrated Group-wide safety management concept.

# ANNUAL FINANCIAL STATEMENTS OF TUI AG

## Condensed version according to German Commercial Code (HGB)

### Earnings position of TUI AG

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

⊕ *Annual financial statements TUI AG 2015 / 16 online at www.tuigroup.com/en-en/investors*

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



**INCOME STATEMENT OF TUI AG**

| € million | **2015 / 16** | 2014 / 15 | Var. % |
|---|---|---|---|
| Other operating income | 637.0 | 508.8 | + 25.2 |
| Personnel costs | 50.3 | 37.8 | + 33.1 |
| Depreciation | 0.5 | 0.6 | – 16.7 |
| Other operating expenses | 762.9 | 568.6 | + 34.2 |
| Net income from investments | 353.4 | 1,420.0 | – 75.1 |
| Write-downs of investments | 3.7 | 24.6 | – 85.0 |
| Net interest | – 24.6 | – 28.9 | + 14.9 |
| **Profit on ordinary activities** | **148.4** | **1,268.3** | **– 88.3** |
| Taxes | 8.5 | 11.6 | – 26.7 |
| **Net profit / loss for the year** | **139.9** | **1,256.7** | **– 88.9** |

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

#### OTHER OPERATING INCOME

The increase in other operating income was mainly driven by a significant year-on-year increase in gains on exchange. This income was offset by expenses for exchange losses of a similar amount, carried in Other operating expenses. Apart from the gains on exchange, Other operating income primarily included income from the elimination of intercompany services, carried alongside expenses of almost the same amount passed on to TUI AG from other Group companies, also shown in Other Operating expenses.

#### PERSONNEL COSTS AND OTHER OPERATING EXPENSES

Personnel costs rose in financial year 2015 / 16, mainly due to higher expenses for members of the management body. Personnel costs also rose due to transfers to pension provisions, recruitment of new staff and the transfer of staff from a subsidiary to TUI AG.

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

### NET INCOME FROM INVESTMENTS

In the financial year under review, TUI AG'S net income from investments was driven, in particular, by the distribution of pre-fiscal unity profits of Leibniz-Service GmbH and the distribution of profits by TUI Cruises GmbH. Net income from investments also included income from profit transfers from hotel companies and companies allocable to central operations. It also comprised expenses for loss transfers from Group companies, resulting in a corresponding reduction in net income from investments. A negative effect was driven in particular by the loss taken over by TUI-Hapag Beteiligungs GmbH from the impairment of the interests in Hapag-Lloyd Aktiengesellschaft. In the prior year, net income from investments had been impacted in particular by the high amount of profits distributed by TUI Travel Ltd.

### WRITE-DOWNS OF INVESTMENTS

In the period under review, write-downs of investments exclusively related to write-downs of hotel investments.

### INTEREST RESULT

The interest result improved as a result of lower interest expenses driven by the redemption of bonds. Interest expenses also declined due to changes in the parameters used to calculate pension provisions. An opposite trend was driven by charges in connection with the syndicated credit facility.

### TAXES

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

### NET PROFIT FOR THE YEAR

For financial year 2015 / 16, TUI AG posted a net profit for the year of € 149.9 m.

## Net assets of TUI AG

TUI AG's net assets and financial position as well as its balance sheet structure reflect its function as the TUI Group's parent company. The balance sheet total rose by 23.5 % to € 9.2 bn in financial year 2015 / 16.

**ABBREVIATED BALANCE SHEET OF TUI AG (FINANCIAL STATEMENT ACCORDING TO GERMAN COMMERCIAL CODE)**

| € million | **30 Sep 2016** | 30 Sep 2015 | Var. % |
|---|---|---|---|
| Intangible assets / property, plant and equipment | 17.5 | 13.7 | + 27.7 |
| Investments | 6,784.8 | 5,662.1 | + 19.8 |
| **Fixed assets** | **6,802.3** | **5,675.8** | **+ 19.8** |
| Inventories / Receivables / Trade securities | 1,724.4 | 912.7 | + 88.9 |
| Cash and cash equivalents | 637.0 | 833.7 | – 23.6 |
| **Current assets** | **2,361.4** | **1,746.4** | **+ 35.2** |
| Prepaid expenses | 0.8 | 0.8 | – |
| **Assets** | **9,164.5** | **7,423.0** | **+ 23.5** |
| **Equity** | **4,812.1** | **4,995.4** | **– 3.7** |
| **Special non-taxed items** | **0.1** | **0.5** | **– 80.0** |
| **Provisions** | **480.8** | **405.6** | **+ 18.5** |
| Bonds | 306.7 | 300.0 | + 2.2 |
| Other liabilities | 3,564.8 | 1,721.5 | + 107.1 |
| **Liabilities** | **3,871.5** | **2,021.5** | **+ 91.5** |
| **Liabilities** | **9,164.5** | **7,423.0** | **+ 23.5** |

### FIXED ASSETS

At the balance sheet date, fixed assets almost exclusively consisted of investments. The increase in investments was mainly attributable to the acquisition of TUI Belgium N. V., TUI Holding Spain SLU and Tantur Turizm Seyahat Ltd. Financial investments also rose due to loans to Group subsidiaries.

### CURRENT ASSETS

In the framework of the restructuring of a cash pool, former TUI Travel subsidiaries were directly included in TUI AG's cash pooling structure in the period under review, causing an increase in receivables in financial year 2015 / 16. Moreover, liquid funds were invested in short-term money market funds in the period under review.

### TUI AG'S CAPITAL STRUCTURE

#### EQUITY

TUI AG's equity decreased by € 183.3 m to € 4,812.1 m. The subscribed capital of TUI AG consists of no-par value shares, each representing an equal portion in the capital stock. The proportionate share in the capital stock per share is around € 2.56. At the end of financial year 2015 / 16, the subscribed capital of TUI AG rose due to the issue of employee shares. At the end of the financial year under review, subscribed capital comprised 587,038,187 shares.

In financial year 2015 / 16, the capital reserve rose by a total of € 2.7 m due to the issue of employee shares. Revenue reserves exclusively consisted of other revenue reserves. The Articles of Association do not contain any provisions concerning the formation of reserves.

The profit for the year amounted to € 139.9 m. Taking account of the profit carried forward of € 682.4 m, net profit available for distribution totalled € 822.3 m. A proposal will be submitted to the Annual General Meeting to use the net profit available for distribution for the financial year under review to distribute a dividend of € 0.63 per no-par value share and to carry the amount of € 452.5 m, remaining after deduction of the dividend total of € 369.8 m, forward on new account. The equity ratio declined to 52.5 % (previous year 67.3 %) in financial year 2015 / 16.

### PROVISIONS

Provisions increased by € 75.2 m to € 480.8 m. They consisted of pension provisions worth € 134.8 m (previous year € 139.0 m) and other provisions worth € 346.0 m (previous year € 266.6 m).

Other provisions increased year-on-year, in particular due to the use of provisions formed for the assumptions of risks in the framework of the sale of Hotelbeds Group and an increase in provisions for invoices outstanding. An opposite effect arose from the decline in provisions for onerous losses from derivative financial instruments.

### LIABILITIES

TUI AG's liabilities totalled € 3,871.5 m, up by € 1,850.0 m or 91.5 %.

In September 2014, TUI AG issued an unsecured bond worth € 300.0 m maturing on 1 October 2019. Due to the issue of bonds with a lower interest coupon, TUI AG cancelled the bond on 18 November 2016 and repaid it ahead of its maturity date.

The increase in other liabilities was also associated with the restructuring of a cash pool of former TUI Travel subsidiaries, which were included in TUI AG's cash pool. Moreover, Group companies fed their gains from the disposal of stakes in Hotelbeds Group into TUI AG's cash pooling system, resulting in a considerable increase in liabilities to Group companies.

TUI's net financial position (funds and marketable securities less bonds) improved year-on-year, amounting to a clearly positive position of € 630.2 m in the period under review.

### CAPITAL AUTHORISATION RESOLUTIONS

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

# TUI SHARE

## TUI share price performance reflects challenging market environment this year

The TUI share performed well at the start of the financial year, but was subsequently impacted by the challenging market environment. The terrorist attacks in Paris on 13 November 2015, in particular, resulted in a slump in equity prices on international stock exchanges.

Supported by the best business results in the history of the Company, the TUI share price climbed during December, before the attacks in Istanbul in early 2016 again impacted tourism shares. In February 2016, market participants were unsettled by the slump in oil prices, which drove international lead indices further into losses.

In the course of the financial year, the TUI share was caught, time and again, between sound operating results and macroeconomic as well as geopolitical turbulence. While the TUI share was supported by a strong overall trading performance and half-year results in March and May 2016, the terrorist attacks in Ankara, Brussels and Nice impacted the financial markets.

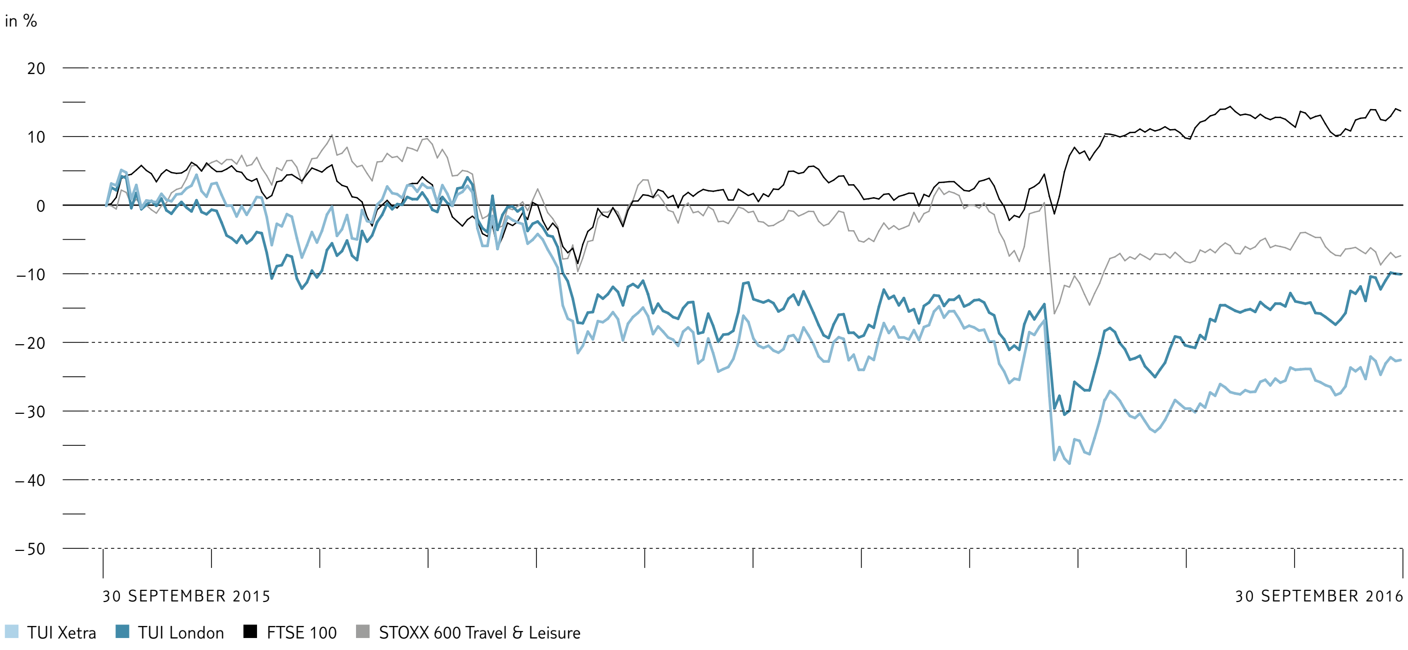
Major stock market distortions also followed the British decision on 23 June 2016 to leave the EU, and concerns about the consequences of Brexit impacted share prices, in particular for shares exposed to the UK source market.

In August and September 2016, the TUI share recovered again, benefiting from sound interim results and a good trading performance. This once again demonstrated the strength of the integrated business model and the success of the Group's content-centric strategy.

**TUI SHARE DATA**

| 30 September 2016 | | |
|---|---|---|
| WKN | | TUAG00 |
| ISIN | | DE000TUAG000 |
| Stock exchange centres | | London, Xetra, Hannover |
| Reuters/Bloomberg | | TUIGn.DE/TUI1.GR (Frankfurt); TUIT.L/TUI:LN (London) |
| Stock category | | Registered ordinary shares |
| Capital stock | € | 1,500,739,295 |
| Number of shares | | 587,038,187 |
| Market capitalisation | bn € | 7.4 |
| Market capitalisation | bn £ | 6.4 |

**TUI SHARE PRICE** (FINANCIAL YEAR 2015/16)



**LONG-TERM DEVELOPMENT OF THE TUI SHARE (XETRA)**

| € | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| High | 9.05 | 10.86 | 6.97 | 17.71 | 17.21 |
| Low | 4.69 | 3.68 | 3.14 | 9.84 | 10.17 |
| Year-end share price | 8.98 | 3.88 | 6.70 | 16.35 | 12.69 |

## Quotations, indices and trading

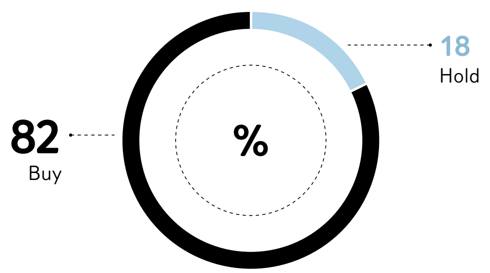
The TUI share has its primary listing in the Premium segment of the Main Market of the London Stock Exchange and is listed in the FTSE UK Index series including FTSE 100, the UK's major share index. It also has a secondary listing in the electronic trading system Xetra and at the Hanover Stock Exchange.

Among the sustainability indices, TUI was listed for the eleventh time running in the renowned Dow Jones Sustainability Index (DJSI) in September 2016. TUI was, moreover, the only tourism group to feature in both the World and Europe indices. TUI Group is furthermore recognised as industry leader. At this year's review of the composition of the index, the Company achieved top scores in the categories Corporate Citizenship, Climate Strategy and Eco-Efficiency. TUI is likewise listed in the sustainability indices FTSE4Good, STOXX Global ESG Leaders Index and ECPI Ethical Index €uro and is a member of the CDP Climate Disclosure Leadership Index in the UK and Germany.

In financial year 2015/16, the average daily trading volume at the London Stock Exchange was around 1.1 million shares, while around 0.7 million shares were traded on Xetra. Both the sterling and the euro line therefore recorded strong liquidity in trading by institutional and private investors.

## Analyst recommendations

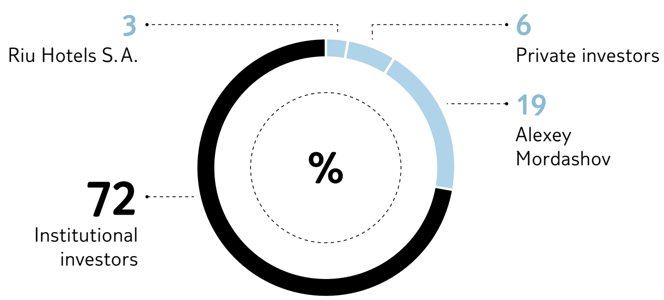
**ANALYSTS' RECOMMENDATIONS**
30 SEPTEMBER 2016



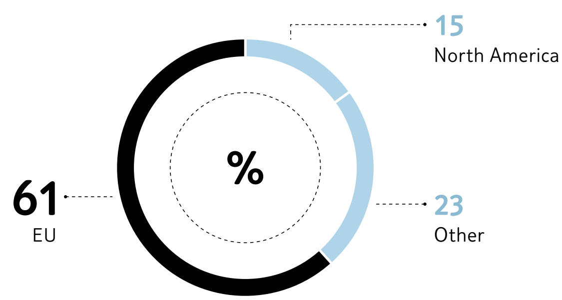

For institutional and private investors, analyses and recommendations by financial analysts are a key decision-making factor. In the financial year under review, more than 20 analysts regularly published studies on TUI. In September 2016, 82 % of analysts issued a recommendation to "buy" the TUI share, with 18 % recommending "hold". None of the analysts recommended "sell".

## Shareholder structure

**SHAREHOLDER STRUCTURE**
30 SEPTEMBER 2016




**GEOGRAPHICAL SHAREHOLDER STRUCTURE**
30 SEPTEMBER 2016



At the end of financial year 2015 / 16, around 81 % of TUI shares were in free float. Around 6 % of all TUI shares were held by private shareholders, around 72 % by institutional investors and financial institutes and around 22 % by strategic investors. Analysis of the share register shows that most shares were held by investors from EU countries.

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

## Dividend

**DEVELOPMENT OF DIVIDENDS AND EARNINGS OF THE TUI SHARE**

| € | 2011 / 12 | 2012 / 13 | 2013 / 14 | 2014 / 15 | **2015 / 16** |
|---|---|---|---|---|---|
| Earnings per share | – 0.16 | – 0.14 | + 0.26 | + 0.64 | + 1.78 |
| Dividend | – | 0.15 | 0.33 | 0.56 | 0.63 |

TUI AG's profit for the year amounted to € 139.9 m. Taking account of the profit carried forward of € 682.4 m, net profit available for distribution totaled € 822.3 m. A proposal will be submitted to the Annual General Meeting to use the net profit available for distribution for the financial year under review to distribute a dividend of € 0.63 per no-par value share and to carry the amount of € 452.5 m, remaining after deduction of the dividendtotal of € 369.8 m, forward on new account.

## Investor Relations

Open and continuous dialogue and transparent communication form the basis for confidence in our dealings with shareholders, institutional investors, equity and credit analysts and lenders. Many discussions were held with TUI shareholders and bondholders; they centred on Group strategy and the development of business in the various Sectors, enabling stakeholders to make a realistic assessment of TUI's future development.

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

Apart from the development of business operations in Tourism, Investor Relations activities in the period under review focused in particular on exogenous impacts on the business model and the growth strategies of the integrated tourism group. TUI's management team commented on these central issues at roadshows in London, Frankfurt, Paris, Edinburgh, Stockholm, Copenhagen, Zurich, Milan, Amsterdam, Brussels, New York, Philadelphia and Boston.

Questions from analysts and investors were also discussed at the conference calls held upon publication of interim reports, during analysts' meetings, at many investor conferences in Europe and the US and at numerous one-on-ones. Many of these meetings were personally attended by management.

Investor Relations also makes every effort to engage in direct contact with private investors. The IR team sought dialogue with this target group on many occasions, such as events organised by shareholder associations. Another key platform for exchanges with private shareholders was the IR stall at TUI's Annual General Meeting. TUI also uses a new website to address its private investors. Apart from the comprehensive information that is made available, online, quarterly updates are hosted via conference cells and can be listened live through our Investor Relations website.

# INFORMATION REQUIRED UNDER TAKEOVER LAW

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

### Composition of subscribed capital

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

The subscribed capital of TUI AG, registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover, consisted of 587,038,187 shares at the end of financial year 2015 / 16 (previous year 586,603,217 shares) and totalled € 1,500,739,294.83. Each share confers one vote at the Annual General Meeting.

#### RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

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

#### EQUITY INTERESTS EXCEEDING 10 % OF THE VOTING RIGHTS

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

Alexey Mordashov, Russia, notified us on 25 November 2015 pursuant to section 21 (1) of the German Securities Trading Act that the voting shares in TUI AG, Hanover, Germany, attributable to him exceeded the 15 % threshold on 20 November 2015. As per that date, voting shares totalling 15.02 % (or 88,146,961 voting rights) were attributable to Alexey Mordashov pursuant to section 22 sentence 1 no. 1 of the German Securities Trading Act.

At the end of financial year 2015 / 16, around 81 % of TUI shares were in free float. Around 6 % of all TUI shares were held by private shareholders, around 72 % by institutional investors and financial institutions, and around 22 % by strategic investors. According to an analysis of the share register, most shares are held by investors in the European Union.

### Shares with special control rights

There have not been any shares, nor are there any shares, with special control rights.

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

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

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

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

### Powers of the Executive Board to issue or buy back shares

The Annual General Meeting of 9 February 2016 authorised TUI AG's Executive Board to acquire own shares of up to 5 % of the capital stock. The authorisation will expire on 8 August 2017. To date, the option to acquire own shares has not been used.

Conditional capital of € 150.0 m was resolved by the Annual General Meeting of 9 February 2016. Bonds with conversion options or warrants as well as profit-sharing rights and income bonds (with or without fixed terms) of up to a nominal amount of € 2.0 bn may be issued up to 8 February 2021.

The Annual General Meeting of 13 February 2013 adopted a resolution to create authorised capital for the issue of employee shares worth € 10.0 m. The Executive Board of TUI AG is authorised to use this approved capital by 12 February 2018 in one or several transactions by issuing employee shares against cash contribution. In the completed financial year, 434,970 new employee shares were issued, resulting in authorised capital of around € 8.3 m at the balance sheet date.

The Annual General Meeting of 28 October 2014 adopted a resolution to create authorised capital for the issue of new shares against cash contribution worth € 18.0 m in order to be able to fulfil claims for shares in TUI Travel granted by TUI Travel to its employees in the form of new shares in TUI AG. The authorisation for this approved capital ends on 27 October 2019.

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

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

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

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

In the event of a change of control, the holders of the fixed-interest bond worth € 300.0 m from October 2016 (and the bond worth € 300.0 m from September 2014 repaid in November 2016) must be offered a buyback.

For the syndicated credit line worth € 1.75 bn, of which € 120.5 m had been used via bank guarantees as at the balance sheet date, a right of termination by the lenders has been agreed in the event of a change of control. This also applies to several bilateral guarantee lines with a total volume of £ 98.5 m, concluded with various insurance companies. At the balance sheet date, an amount of 48.6 m pounds had been used.

Beyond this, there are no agreements in guarantee, leasing, option or other financial contracts that might cause material early redemption obligations that would be of significant relevance for the Group's liquidity.

Apart from the financing instruments mentioned above, a framework agreement between the Riu family and TUI AG includes a change of control clause. A change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board are attributable to a shareholder group. In the event of a change of control, the Riu family is entitled to acquire at least 20 % and at most all shares held by TUI in RIUSA II S. A.

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

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

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

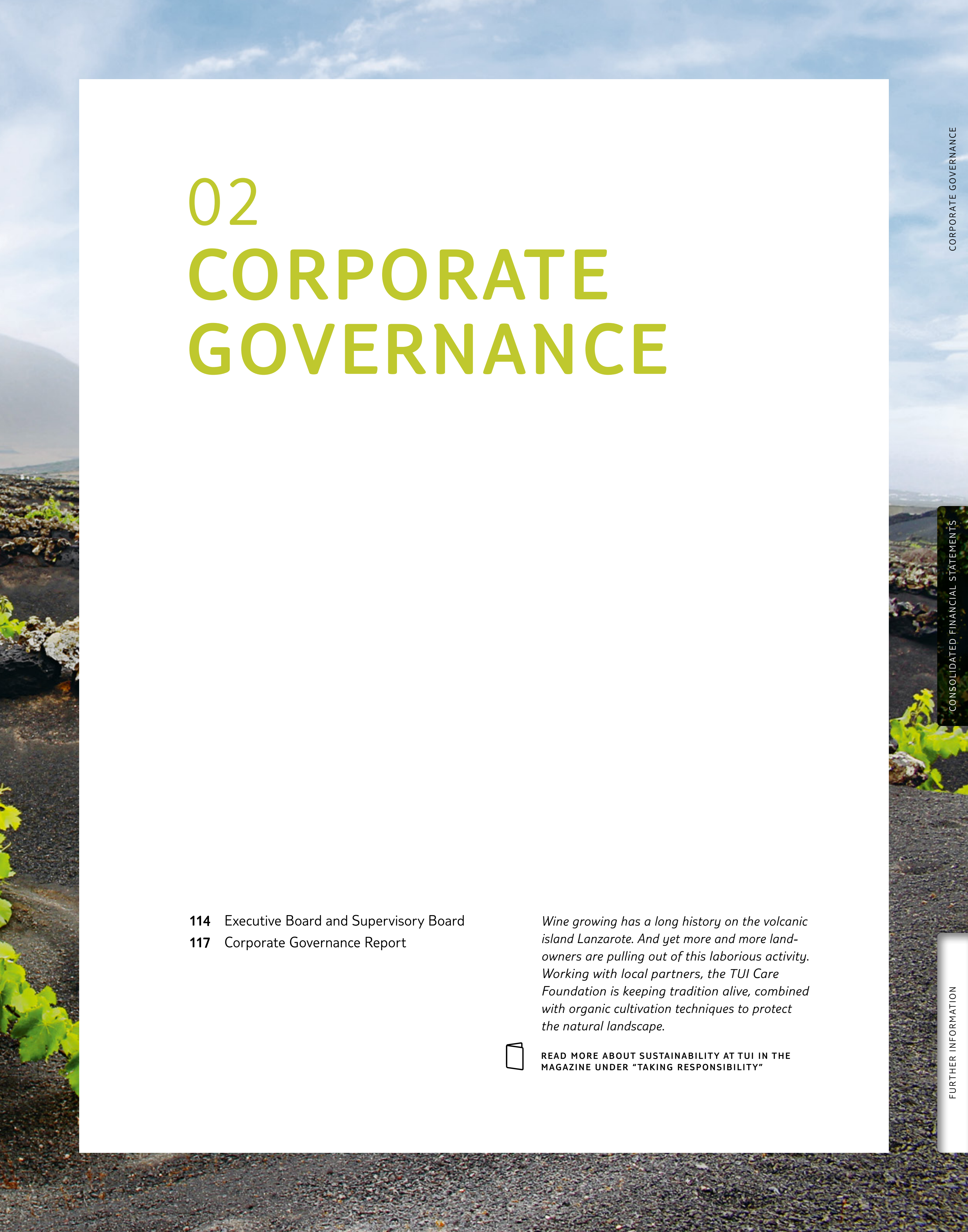
# REPORT ON SUBSEQUENT EVENTS

On 26 October 2016, TUI AG issued a fixed-interest bond with a coupon of 2,125 % p.a. and a nominal volume of € 300.0 m. The bond was issued at a price of 99,415 % in denominations with nominal values of € 100,000. It will mature on 26 October 2021.

On 18 November 2016, TUI AG redeemed the fixed-interest bond issued on 26 September 2014, originally maturing on 1 October 2019, ahead of maturity. The bond was redeemed at a price of 102.25 % plus accrued interest. The cash inflow of € 298.2 m received by TUI AG from issuing the bond on 26 October 2016 was used to redeem the bond.

On 21 June 2016, TUI had concluded an agreement with Transat A.T. Inc. to acquire tour operator Transat France S.A., France, and its subsidiaries for a purchase price of € 64.9 m. Following regulatory approvals, the acquisition was completed on 31 October 2016. For further details on the acquisition, reference is made to the section on Acquisitions – Divestments – Discontinued Operations.

On 23 November 2016, the supervisory board of TUI AG approved the agreement of a term sheet with Etihad Aviation Group. This agreement is the basis for the acquisition of a minority share in a company through the contribution of the shares in TUIfly GmbH. The Etihad Group will also invest in this company. The minority share is likely to be accounted for at equity. It is expected that the contractual negotiations will be finalised within the next few weeks. The transaction is subject to approval of the relevant aviation and competition authorities.



# 02 CORPORATE GOVERNANCE



*Wine growing has a long history on the volcanic island Lanzarote. And yet more and more landowners are pulling out of this laborious activity. Working with local partners, the TUI Care Foundation is keeping tradition alive, combined with organic cultivation techniques to protect the natural landscape.*

READ MORE ABOUT SUSTAINABILITY AT TUI IN THE MAGAZINE UNDER "TAKING RESPONSIBILITY"

# EXECUTIVE BOARD AND SUPERVISORY BOARD

## SUPERVISORY BOARD

| Name | Function / Occupation | Location |
|---|---|---|
| **Prof. Dr Klaus Mangold** | Chairman of the Supervisory Board of TUI AG | Stuttgart |
| | Chairman of the Supervisory Board of Rothschild GmbH | |
| **Frank Jakobi**[1] | Deputy Chairman of the Supervisory Board of TUI AG | Hamburg |
| | Travel Agent | |
| **Sir Michael Hodgkinson** | Deputy Chairman of the Supervisory Board of TUI AG | London |
| **Andreas Barczewski**[1] | Aircraft Captain | Hanover |
| **Peter Bremme**[1] | Regional Head of the Special Division of ver.di – Vereinte Dienstleistungsgewerkschaft | Hamburg |
| **Prof. Dr Edgar Ernst** | President of Deutsche Prüfstelle für Rechnungslegung (DPR) | Berlin |
| **Wolfgang Flintermann** (since 13 June 2016)[1] | Director Financial Accounting Group at TUI AG | Großburgwedel |
| **Angelika Gifford** (since 9 February 2016) | Vice President Hewlett Packard Enterprise and Director Software Germany | Kranzberg |
| **Valerie Gooding** | Member of supervisory bodies in different companies | Weybridge |
| **Dr Dierk Hirschel**[1] | Business unit manager of the trade-unition ver.di – Vereinte Dienstleistungsgewerkschaft | Berlin |
| **Janis Kong** | Member of supervisory bodies in different companies | London |
| **Peter Long** (since 9 February 2016) | Chairman Royal Mail Group PLC | London |
| **Coline McConville** | Member of supervisory bodies in different companies | London |
| **Alexey Mordashov** (since 9 February 2016) | Chairman Board of Directors of PAO Severstal | Moscow |
| **Michael Pönipp**[1] | Hotel Manager | Hanover |
| **Timothy Powell** (until 9 February 2016) | Member of supervisory bodies in different companies | London |
| **Wilfried H. Rau**[1] (deceased on 30 March 2016) | Director Group Audit | Hanover |
| **Carmen Riu Güell** | Managing Director RIUSA II S.A. | Palma de Mallorca |
| **Carola Schwirn**[1] | Department Coordinator in the Transportation Division of ver.di – Vereinte Dienstleistungsgewerkschaft | Berlin |
| **Maxim Shemetov** (until 9 February 2016) | Head of Investment Management, Travel Sector, ZAO Sever Group | Moscow |
| **Anette Strempel**[1] | Travel Agent | Hemmingen |
| **Prof. Christian Strenger** (until 9 February 2016) | Member of supervisory bodies in different companies | Frankfurt / Main |
| **Ortwin Strubelt**[1] | Travel Agent | Hamburg |
| **Stefan Weinhofer**[1] (since 9 February 2016) | International Employee Relations Coordinator at TUI AG | Wien |
| **Marcell Witt**[1] | Referee of Group and European works council of TUI AG | Hanover |

1 Representative of the employees
2 Information refers to 30 September 2016 or date of resignation from the Supervisory Board of TUI AG in financial year 2015 / 16.
3 Chairman

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

| Initial Appointment | Appointed until AGM | Other Board Memberships[2] | | Number of TUI AG shares (direct and indirect) on 30 September 2016 / Date of withdrawal |
|---|---|---|---|---|
| 7 Jan 2010 | 2021 | a) Continental AG | b) Alstom S.A. | 0 |
| | | | Baiterek Holding JSC | |
| | | | Ernst & Young | |
| | | | Rothschild GmbH[3] | |
| 15 Aug 2007 | 2021 | | | 590 |
| 11 Dec 2014 | 2021 | b) Keolis (UK) Limited[3] | | 7,980 |
| | | Keolis Amey Docklands Ltd. | | |
| | | World Airport Partners GmbH | | |
| 10 May 2006 | 2021 | a) TUIfly GmbH | | 0 |
| 2 Jul 2014 | 2021 | a) TÜV Nord AG | | 0 |
| 9 Feb 2011 | 2021 | a) Deutsche Postbank AG | | 0 |
| | | DMG Mori AG | | |
| | | VONOVIA SE | | |
| 13 Jun 2016 | 2021 | a) TUI Deutschland GmbH | | 0 |
| | | Deutscher Reisepreis- | | |
| | | Sicherungsverein V.V.a.G. | | |
| 26 Mar 2012 | 2021 | a) ProSiebenSat1 Media SE | b) Rothschild & Co | 4,100 |
| 11 Dec 2014 | 2020 | b) Premier Farnell[3] | | 994 |
| | | Vodafone PLC | | |
| 16 Jan 2015 | 2021 | a) DZ-Bank AG | | 0 |
| 11 Dec 2014 | 2020 | b) Bristol Airport Ltd. | Portmeirion Group PLC | 5,985 |
| | | Copenhagen Airport | South West Airports Ltd. | |
| 9 Feb 2016 | 2021 | b) Royal Mail Group PLC[3] | Parques Reunidos Servicios | 1,207,317 |
| | | Countrywide PLC | Centrales S.A. | |
| 11 Dec 2014 | 2020 | b) Fevertree Drinks PLC | Travis Perkins PLC | 0 |
| | | Inchape PLC | | |
| 9 Feb 2016 | 2021 | b) AO „Severstal Management“[3] | ZAO SVEZA[3] | 113,790,116 |
| | | OAO „Power Machines“[3] | Nordgold N.V. | |
| 17 Apr 2013 | 2021 | a) TUI Deutschland GmbH | b) TUI BKK | 292 |
| | | MER-Pensionskasse V.V.a.G. | | |
| 11 Dec 2014 | | b) Computacenter PLC | | 2,749 |
| | | Supergroup PLC | | |
| 3 Dec 2014 | | a) TUI Deutschland GmbH | | |
| 14 Feb 2005 | 2021 | b) Hotel San Francisco S.A. | Riu Hotels S.A. | 19,854,616 |
| | | Productores Hoteleros Reunidos S.A. | RIUSA II S.A. | |
| 1 Aug 2014 | 2021 | | | 0 |
| 14 Mar 2014 | | | | 0 |
| 2 Jan 2009 | 2021 | | | 1,280 |
| 9 Feb 2011 | | a) Deutsche Asset & Wealth Management | b) The Germany Funds, Inc.[3] | 0 |
| | | Investment GmbH | | |
| | | ItN Nanovation AG | | |
| 3 Apr 2009 | 2021 | | | 3,355 |
| 9 Feb 2016 | 2021 | | b) TUI Austria Holding GmbH | 0 |
| 16 Jan 2015 | | | | 1,850 |

## EXECUTIVE BOARD[1]

| Name | Department | Other Board Memberships | | Number of TUI AG shares (direct and indirect) on 30 Sep 2016 / Date of withdrawal |
|---|---|---|---|---|
| **Friedrich Joussen** | CEO | | | 278,081 |
| (Age 53) | | | | |
| Member of the Executive Board | | | | |
| since Oct 2012, | | | | |
| CEO of the Executive Board | | | | |
| from Feb 2013, | | | | |
| Joint-CEO since December 2014 | | | | |
| CEO since February 2016 | | | | |
| Current appointment until October 2020 | | | | |
| **Peter Long** | Joint-CEO | | b) Royal Mail Group PLC[2] | 1,207,317 |
| (Age 64) | | | | |
| Member of the Executive Board since 2007, | | | | |
| Joint-CEO | | | | |
| December 2014 until February 2016 | | | | |
| **Horst Baier** | Finance | a) TUI Deutschland GmbH[2] | b) RIUSA II S.A.[2] | 40,717 |
| (Age 59) | | | TUI Canada Holdings Inc. | |
| Member of the Executive Board since 2007 | | | Sunwing Travel Group Inc. | |
| Current appointment until November 2018 | | | | |
| **David Burling** | Northern Region | b) TUI Travel Holdings Ltd. | TUI Travel Overseas Holdings Ltd. | 18,300 |
| (Age 48) | Airlines | TUI Travel Ltd. | TUI Canada Holdings Inc. | |
| Member of the Executive Board | Hotel Purchasing | First Choice Holidays Ltd. | TUI Northern Europe Ltd. | |
| since June 2015 | | Sunwing Travel Group Inc. | TUI Travel Group Management | |
| Current appointment until May 2018 | | Thomson Travel Group | Services Ltd. | |
| | | (Holdings) Ltd. | TUI UK Ltd. | |
| | | TTG (Jersey) Ltd. | TUI UK Transport Ltd. | |
| **Sebastian Ebel** | Central Region | a) TUI Cruises GmbH | b) RIUSA II S.A. | 250 |
| (Age 53) | Hotels | TUIfly GmbH | TUI Spain S.A. | |
| Member of the Executive Board | Cruises | BRW Beteiligungs AG | | |
| since December 2014 | TUI Destination Services | Eintracht Braunschweig | | |
| Current appointment until November 2017 | IT | GmbH & Co KG[2] | | |
| | | Eves Information Technology AG[2] | | |
| **Dr Elke Eller** | Human Resources | a) Nord LB | | 12,545 |
| (Age 54) | Personnel Director | TUI Deutschland GmbH | | |
| Member of the Executive Board | | TUIfly GmbH | | |
| since October 2015 | | TUI Nederland N.V. | | |
| Current appointment until October 2018 | | | | |
| **William Waggott** | Specialist Group | b) TUI Nederland N.V. | | 1,089 |
| (Age 53) | Hotelsbeds Group | TUI Nederland Holding N.V. | | |
| Member of the Executive Board | | | | |
| December 2014 until June 2016 | | | | |

[1] Information refers to 30 Sep 2016 or date of resignation from the Excecutive Board in financial year 2015/16.
[2] Chairman

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

# CORPORATE GOVERNANCE REPORT

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

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

The Executive Board and the Supervisory Board comprehensively discussed Corporate Governance issues in financial year 2015 / 16. In this chapter, the Executive Board and the Supervisory Board provide their report on Corporate Governance in the Company pursuant to subsection 3.10 of the German Corporate Governance Code (the German Code, DCGK) and section 289a of the German Commercial Code (HGB) as well as Disclosure and Transparency Rule (DTR) 7.2 and Listing Rule (LR) 9.8.7R.

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

In December 2016, the Executive Board and the Supervisory Board jointly submitted the declaration of compliance for 2016 pursuant to section 161 of the German Stock Corporation Act. The declaration was made permanently accessible to the general public on TUI AG's website in December 2016.

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

#### WORDING OF THE DECLARATION OF COMPLIANCE FOR 2016

"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 German Corporate Governance Code in its version of 5 May 2015 have been fully observed since the last annual declaration of compliance was submitted in December 2015."

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

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

⊕ *www.dcgk.de/en/code.html*

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

⊕ *https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf*

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

Under the German Stock Corporation Act, the legislation applicable to TUI AG, a two-tier board system is mandatory (as explained in the merger documentation; see below section Functioning of the Executive and Supervisory Board). The two-tier board structure is different to the UK unitary board structure on which the UK Code is based. Some of the principles of composition and operation of the boards of a German stock corporation also differ from those of a UK company (for example, there is no Company Secretary). For this reason, TUI AG has set out below circumstances where it considers not to comply with the UK Code. TUI AG has also explained those instances where it considers not to be compliant with the UK Code in the literal or legal sense but where TUI AG is convinced that it complies with the spirit and meaning of the UK Code. Sub-headings refer to sections of the UK Code for ease of reference for investors.

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

#### WORDING OF THE UK CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

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

### INDEPENDENCE OF SUPERVISORY BOARD MEMBERS (B1.1)

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

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

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

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

#### PERFORMANCE-RELATED PAY

Until the end of financial year 2014, all Supervisory Board members received a performance-related pay element in addition to their fixed pay, as approved by shareholders at the 2013 AGM and in line with a specific recommendation of the German Code at that time.

This recommendation in the German Code has meanwhile been withdrawn, and at the 2016 AGM shareholders approved the replacement of the performance-related pay element with a fixed fee with retroactive effect from the beginning of financial year 2015 / 16.

#### SHAREHOLDER AND EMPLOYEE REPRESENTATIVES

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

In TUI AG, only Carmen Riu-Güell and Alexey Mordashov are connected to significant shareholders, namely Riu Hotels (approx. 3.4 %) and Alexey Mordashov (approx. 19.3 %), respectively. It should also be noted that joint ventures exist between TUI AG and both Riu Hotels S.A. and TUI Russia & CIS (in which a majority controlling interest is held by Mr Mordashov) (for further details see page 109 of the Annual Report). Until his election to the Supervisory Board in February 2016, Peter Long was Co-CEO of TUI AG from December 2014 to February 2016. Prior to that, he was a member of the Executive Board of TUI AG from 2007 and CEO of TUI Travel PLC. Therefore, neither Ms Riu-Güell nor Mr Mordashov nor Mr Long are considered independent for the purposes of the UK Code.

Therefore, excluding the Chairman (as required by the UK Code), six of the nine shareholder representatives are considered independent for the purposes of the UK Code.

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

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

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

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

#### HALF THE BOARD SHOULD BE INDEPENDENT NON-EXECUTIVE DIRECTORS (B1.2)

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

#### NOMINATION COMMITTEE – COMPOSITION AND RESPONSIBILITIES (B2.1)

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

However, as is common practice in Germany, at each AGM shareholders are asked to decide whether they approve the actions of the Executive Board and Supervisory Board members during the past financial year. Since the AGM 2015, in the light of UK practice TUI AG has changed its procedure to allow a separate vote on each individual Executive Board and Supervisory Board member, as customary in the UK. This approach was also used at the AGM in February 2016. TUI AG intends to continue this practice. Accordingly, the Supervisory Board considers that TUI AG complies with the spirit of the UK Code to the extent practicable.

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

The Rules of Procedure for the Supervisory Board and its Committees (including the Audit Committee) are not made available for the public. Therefore TUI AG is not compliant with this provision of the UK Code.

#### LENGTH OF TENURE FOR NON-EXECUTIVE DIRECTORS (B2.3)

In accordance with German law and common practice, shareholder representatives are generally elected for five-year terms. Employee representatives are also generally appointed for five years. Therefore, neither Executive nor Supervisory Board members are re-elected or re-appointed annually by shareholders. TUI AG therefore does not comply with this provision of the UK Code.

Under the UK Code, any term beyond six years should be subject to rigorous review and no term should extend beyond nine years (as it could affect the independence of the Non-Executive Director). However, in the German Corporate Governance context, a longer length of service is quite normal as Supervisory Board members are usually elected for five years and re-election is common.

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

For the activities of the Nomination Committee, see page 15 which is part of the Chairman's letter to shareholders.

During the year, neither a personnel consultancy nor external advertisements were used to search any potential Supervisory Board members. Succession planning for management members below Executive Board level is carried out by the Executive Board. The Presiding Committee is only responsible for succession planning for the Executive Board.

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

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

### EXTERNAL NON-EXECUTIVE/CHAIRMAN ROLES (B3.3)

Peter Long was Joint-CEO of TUI AG since the merger from 1 October 2015 until the close of the AGM 2016 on 9 February 2016. From 1 September 2015, Peter Long was also Chairman of Royal Mail PLC. This appointment led to a short period of overlap during which TUI AG was not compliant with the UK Code.

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

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

### BOARD PERFORMANCE EVALUATION (B6)

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

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

External evaluation is limited to Supervisory Board members and is performed by means of individual interviews and anonymous reviews. Consolidated results are shared with the entire Supervisory Board and appropriate actions are suggested and discussed as appropriate. The last external review of the Supervisory Board was undertaken during 2015 by Board Consultants International (Hamburg/Germany). The results were presented during the meeting of the Supervisory Board in December 2015. Board Consultants International has no other connection with TUI AG.

The appraisal of the Chairman of the Supervisory Board is covered during the external evaluation process and Executive Board members are invited to contribute to the process.

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

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

The end of appointment periods for Supervisory Board members are disclosed in the table following the Chairman's letter on page 114. In respect of the shareholder representatives, the Supervisory Board – based on the recommendations of its Nomination Committee – proposed the re-election of Prof. Klaus Mangold, Sir Michael Hodgkinson, Carmen Riu Güell and Prof. Edgar Ernst to the AGM 2016. Peter Long, Angelika Gifford and Alexey Mordashov were also proposed for election by the shareholders. Biographical details were included in the invitation to the AGM to enable a well-informed decision by the shareholders. Additionally, the curricula vitae of all Executive and Supervisory Board members are published at www.tuigroup.com/en-en/investors/corporate-governance.

Wolfgang Flintermann was appointed as member of the Supervisory Board of TUI AG by the court of registration with effect from 13 June 2016 to replace Wilfried Rau, who had passed away on 30 March 2016.

### FAIR, BALANCED AND UNDERSTANDABLE ANNUAL REPORT AND ACCOUNTS (C1.1)

In a German stock corporation the Executive Board is responsible for drafting the Annual Report & Accounts (ARA). According to section 243 (2) of the German Commercial Act (HGB) the ARA must be clearly arranged and should present a realistic picture of the Company's economic situation. This is equivalent to the UK Code requirement for the ARA to be fair, balanced and understandable. Although this assessement has not been delegated to the Audit Committee (C3.4), the Executive Board is convinced that this ARA satisfies both requirements.

### ESTABLISHMENT AND OPERATION OF REMUNERATION COMMITTEE (D2), REMUNERATION (D1)

In the German governance structure there is no separate Remuneration Committee. The remuneration of the Executive Board is under involvement of the employee representatives monitored and agreed by the Supervisory Board based on recommendations from the Presiding Committee, which is governed by the Supervisory Board Rules of Procedure, as referred to above.

Supervisory Board remuneration and the remuneration of Board Committee members is governed by the Articles of Association as resolved on by the shareholders at the AGM.

There are no clawback or malus provisions in the service contracts of Executive Board members. Such provisions would be unusual (and probably unenforceable) in Germany. However, there are different contractual and statutory provisions that may allow for a reduction or forfeiture of remuneration components or allow TUI AG to claim damages from Executive Board members. First, the service contracts of Executive Board members provide for forfeiture of the annual bonus and the LTIP if TUI AG terminates the service contract for cause without notice before the end of the one year performance period in the case of the annual bonus or before the end of the respective performance period of the LTIP. Second, the Supervisory Board may, under certain exceptional circumstances, reduce Executive Board compensation in case of a deterioration of the economic situation of TUI AG. Third, Executive Board members may be liable for damages under the German Stock Corporation Act in case of a breach of their duties of care or fiduciary duties.

See the Directors' Remuneration Report for full details on Executive and Supervisory Board member´s remuneration.

→ *Remuneration Report from page 127*

### COMPENSATION COMMITMENTS IN EXECUTIVE DIRECTORS' SERVICE CONTRACTS (D1.4)

The principles that apply for departing Executive Directors are detailed in the Directors´ Remuneration Report (see page 136). The terms are set out in the Executive Directors' contracts of employment as approved by the Supervisory Board and take into account the various circumstances in which a director may leave. These include maximum limits on the amounts payable on termination. Given that in Germany contracts are issued for a fixed term, termination payments may be greater than the one year recommended in the UK Code. In no case is the amount payable on early termination higher than the amount that would be payable for the outstanding term of the service contract at the time of termination.

### NOTICE PERIODS FOR EXECUTIVE DIRECTORS (D1.5)

Executive Board appointments are normally for a fixed term of three to five years and therefore do not comply with the UK Code which stipulates that notice or contract periods should be set at one year or less. However, the contracts include maximum limits on the amounts payable on termination.

→ *See comments on D1.4 and Remuneration Report from page 127*

### DIALOGUE WITH SHAREHOLDERS (E1)

It is not common practice in German companies for Supervisory Board members to make themselves available for meetings with major shareholders. This preserves the separation of duties between the Supervisory and Executive Boards. The AGM is considered the appropriate forum for shareholders to raise any topics for discussion. Nevertheless, there is a move in Germany to allow under the German Code for an appropriate exchange on Supervisory Board matters between the Chairman of the Supervisory Board and shareholders. There have meetings between the Chairman and the Deputy Chairman (shareholder representative) of the Supervisory Board and shareholders and investors in the past (most recently in September 2015).

The Supervisory Board receives feedback from the Chairman and Deputy Chairman (shareholder representative) and Executive Board members following meetings with major shareholders or investors. Additionally, a monthly Investor Relations Report and event-driven assessmants of brokers are forwarded to the Executive and the Supervisory Board. They contain updates on the share price development, analyses by sellers and feedback and assessments from investors.

The following meetings between management and investors (attended by the Chief Executive Officer and/or the Chief Financial Officer and members of the Investor Relations team, where appropriate) took place during the year ended 30 September 2016:

**DIALOGUE WITH SHAREHOLDERS**

| Date | Event | Attendees |
|---|---|---|
| November 2015 | Global Income Corporate Day London | HB |
| December 2015 | Roadshow Edinburgh | FJ, HB |
| | Roadshow London | FJ, HB |
| January 2016 | German Investment Seminar | HB |
| | German Corporate Conference | HB |
| March 2016 | Roadshow Amsterdam | HB |
| April 2016 | Barclays Leisure and Transport Conference | HB |
| | Investor Dinner London | FJ, HB |
| | MS Roundtable | FJ |
| May 2016 | Roadshow UK | FJ, HB |
| | Roadshow Copenhagen | HB |
| | Barclays Select Corporate Day Stockholm | HB |
| | Roadshow Zurich | HB |
| June 2016 | Roadshow Frankfurt | HB |
| | Roadshow Paris | HB |
| | Roadshow US | FJ, HB |
| | dbAccess German, Swiss and Austrian Conference | HB |
| July 2016 | Investor Meeting – Invesco | FJ, HB |
| August 2016 | Coba Sector Conference 2016 | HB |
| September 2016 | Berenberg & Goldman Sachs GCC Conference | HB |

Key: Friedrich Joussen (FJ), Horst Baier (HB)

Key topics discussed at meetings between shareholders and Executive Board members included:

- Development of business operations in Tourism
- Exogenous impacts on the business model
- Growth strategy of the integrated tourism group

Accordingly, TUI AG considers that it complies with the spirit of the UK Code.

### AGM RESOLUTION ON FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS (E2.1)

It is not common practice in Germany to pass a resolution at the AGM to approve the financial statements and consolidated financial statements. Therefore, this was not done at the AGM in 2016 and it is not intended to do so at the AGM in 2017. However, as required by German law the first item on the agenda of TUI AG's AGM is the presentation of the financial statements and consolidated financial statements to the AGM. Under this item, the Executive Board will explain the financial statements and consolidated financial statements and the Chairman will explain, in particular, the report of the Supervisory Board (including this UK Corporate Governance Statement). Shareholders will have the opportunity to raise questions. Questions are typically raised, as is normal in the AGMs of German companies, and, as a general rule, answers must be provided under German law.

This is the standard practice for a German company and is in full compliance with the German Code. While the lack of a resolution to approve the Annual Report & Accounts is not in compliance with the UK Code, TUI AG considers that the arrangements afford shareholders with sufficient opportunity to raise any questions or concerns that they may have in relation to the Annual Report & Accounts, and to receive answers, in the AGM. Accordingly, the Executive Board and the Supervisory Board consider that TUI AG complies with the spirit of the UK Code to the extent practicable.

### CIRCULATION OF AGM DOCUMENTATION TO SHAREHOLDERS (E.2.4)

The 2016 AGM of TUI AG was held on 9 February 2016. As required by German law, the notice convening TUI AG's 2016 AGM (including the agenda and the voting proposals of the Executive Board and the Supervisory Board) was published in the Federal Gazette in Germany on 30 December 2015. Shareholders then had the right under German law to request additional agenda items at any time up to 30 days before the AGM. In accordance with German practice, once this deadline had expired the combined invitation and explanatory notes relating to the AGM were sent to shareholders on 14 January 2016, which was less than the 20 working days before the AGM recommended in the UK Code (but more than the 21 days' notice required by German law). However, in addition to the original publication of the Invitation in the Federal Gazette in Germany, the combined invitation and explanatory notes relating to the AGM was published on TUI AG's website on 30 December 2015. As no additional agenda items were requested by shareholders, this was in the same form as the final combined invitation and explanatory notes relating to the AGM later sent to shareholders. Further, TUI AG´s Annual Report and Accounts for the financial year to 30 September 2015 was published on 10 December 2015, significantly more than 20 working days before the 2016 AGM. Accordingly, TUI AG considers that it complied with the spirit of the UK Code requirements. A similar timetable will be followed in relation to the 2017 AGM."

## 3. Further information on Corporate Governance

### FUNCTIONING OF THE EXECUTIVE AND SUPERVISORY BOARDS

TUI AG is a company under German law. One of the fundamental principles of German stock corporation law is the dual management system involving two bodies, the Executive Board in charge of managing the company and the Supervisory Board in charge of monitoring the company. TUI AG's Executive Board and Supervisory Board cooperate closely and in a spirit of trust in managing and overseeing the Company, with strict separation between the two bodies in terms of their membership and competences. Both bodies are obliged to ensure the continued existence of the Company and sustainable creation of added value in harmony with the principles of the social market economy.

TUI AG's Executive Board comprised five members as at the closing date 30 September 2016. The Executive Board is responsible for managing the Company's business operations in the interests of the Company. The allocation of functions and responsibilities to individual Board members is presented in a separate section.

*For functions, see section Executive Board and Supervisory Board on page 114 et seqq.*

In accordance with the law and the Articles of Association, the Supervisory Board had 20 members at the balance sheet date, i.e. 30 September 2016. The Supervisory Board advises and oversees the Executive Board in the management of the Company. It is involved in strategic and planning decisions and all decisions of fundamental importance to the Company. When the Executive Board takes decisions on major transactions, such as the annual budget, major acquisitions or divestments, it is required by its terms of reference to seek the approval of the Supervisory Board. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. The Supervisory Board and the Audit Committee have adopted terms of reference for their own work. In the run-up to the Supervisory Board meetings, the representatives of shareholders and employees meet separately.

The Executive Board provides the Supervisory Board at regular meetings and in writing with comprehensive, up-to-date information about the strategy, the budget, business performance and the situation of the Group, including risk management and compliance. The Executive Board works on the basis of terms of reference issued by the Supervisory Board.

TUI AG has taken out a D&O insurance policy with an appropriate deductible for all members of the Executive Board and Supervisory Board. The deductible amounts to 10% of the loss up to the amount of one and a half times the fixed annual compensation.

### COMPOSITION OF THE SUPERVISORY BOARD

As at the balance sheet date, 30 September 2016, the Supervisory Board of TUI AG comprised 20 members. The composition of the Supervisory Board in financial year 2015/16 ensured that its members as a group had the knowledge, ability and expert experience required to properly complete their tasks. The goals set by the Supervisory Board itself for its composition include in particular comprehensive industry knowledge, at least five independent shareholder representatives, at least five members with international experience, and diversity.

Twelve members of the Supervisory Board had considerable international experience. Due to the different professional experiences of its members, the composition of the Supervisory Board overall reflects a great diversity of relevant experience, ability and industry knowhow. None of the shareholder representatives on the Supervisory Board had any commercial or personal relationship with the Company, its Executive Board or third parties that might cause a material clash of interests. Seven shareholder representatives are independent.

In accordance with the recommendations of the German Corporate Governance Code, the original shareholder representatives were individually elected for five-year terms of office during elections to the Supervisory Board at the relevant General Meetings (October 2014, February 2016). Only Prof. Klaus Mangold and Sir Michael Hodgkinson were older than 68 years when they were elected as members of the Supervisory Board. In both cases, the Supervisory Board deemed it appropriate to deviate from the regular age limit in order for the Company to benefit from Prof. Klaus Mangold's and Sir Michael Hodgkinson's extensive experience in order to complete the integration process and in order to ensure continuity. With Peter Long, a former member of the Executive Board has been a Supervisory Board member since the Annual General Meeting 2016 held on 9 February 2016.

### COMMITTEES OF THE SUPERVISORY BOARD AND THEIR COMPOSITION

At 30 September 2016, the balance sheet date, the Supervisory Board had established five committees from among its members to support its work: the Presiding Committee, the Audit Committee, the Nomination Committee, the Integration Committee (until December 2016) and the Strategy Committee (since 9 February 2016).

A Mediation Committee was furthermore established in accordance with section 27 (3) of the German Co-Determination Act.

The Presiding Committee and Audit Committee have eight members each, with an equal number of shareholder representatives (including the respective chairpersons of the committees) and employee representatives. The Presiding Committee prepares, in particular, the appointment of Executive Board members, including the terms and conditions of service contracts and remuneration proposals. The Audit Committee's task is to support the Supervisory Board in exercising its oversight function. The Chairman of the Audit Committee is an independent financial expert and has particular knowledge and experience in the application of accounting principles and internal control methods from his own professional practice.

The Nomination Committee consists exclusively of shareholder representatives, in keeping with the recommendation in the German Corporate Governance Code. The task of its four members is to suggest suitable candidates for the Supervisory Board to propose to the Annual General Meeting.

The Integration Committee was set up to advise and supervise the Executive Board in the integration process following the merger for two years after the merger's completion. It prepares proposals for resolutions for the Supervisory Board but does not have a mandate to take any decisions on behalf of the Supervisory Board. It comprises five shareholder representatives and one employee representative.

The Strategy Committee began its work after the Annual General Meeting 2016. Its task is to comprehensively advise and oversee the Executive Board in developing and implementing the corporate strategy. It prepares the annual strategy offsite meeting for the Supervisory Board, but does not have a mandate to take any decisions on behalf of the Supervisory Board. It comprises five shareholder representatives and one employee representative.

### CONFLICTS OF INTEREST

Executive and Supervisory Board members have a duty to act in TUI AG's best interests. In the completed financial year 2015 / 16, there were no conflicts of interest requiring disclosure to the Supervisory Board. None of the Executive Board or Supervisory Board members has a board role or a consultancy contract with one of TUI's competitors. Peter Long did not take part in the Supervisory Board resolution regarding payment of remuneration entitlements still arising from his Executive Board role adopted on 15 September 2016.

### SPECIFICATIONS PURSUANT TO SECTIONS 76 (4), 111 (5) OF THE GERMAN STOCK CORPORATION ACT

At least 30 % of the Supervisory Board members were women and at least 30 % were men at the balance sheet date. The Supervisory Board was therefore compliant with section 96 (2) sentence 1 of the German Stock Corporation Act. Neither the shareholder nor the employee representatives on the Supervisory Board objected to overall compliance in accordance with section 96 (2) sentence 2 of the German Stock Corporation Act.

The Supervisory Board resolved, in keeping with section 111 (5) of the German Stock Corporation Act, that a woman should be recruited to the Executive Board. This objective has been implemented with Dr Elke Eller joining the Executive Board as at 15 October 2015.

In turn, the Executive Board resolved, in keeping with section 76 (4) of the German Stock Corporation Act, that women should account for 20 % of executives at the level immediately below the Executive Board and 30 % at the level below this. Both targets are to be achieved by 30 June 2017.

### SHAREHOLDERS AND ANNUAL GENERAL MEETING

TUI AG shareholders exercise their co-determination and monitoring rights at the Annual General Meeting, which takes place at least once a year. The AGM takes decisions on all statutory matters, and these are binding on all shareholders and the Company. For voting on resolutions, each share confers one vote.

All shareholders registering in due time are entitled to participate in the Annual General Meeting. Shareholders who are not able to attend the AGM in person are entitled to have their voting rights exercised by a bank, a shareholder association, one of the representatives provided by TUI AG and acting on the shareholders' behalf in accordance with their instructions, or some other proxy of their own choosing. Shareholders also have the opportunity of authorising the representative provided by TUI AG via the web in the run-up to the AGM. Shareholders can, moreover, register for electronic dispatch of the AGM documents.

The invitation to the AGM and the reports and information required for voting are published in accordance with the provisions of the German Stock Corporation Act and provided in German and English on TUI AG's website. During the AGM, the presentations by the chairman of the Supervisory Board and the Executive Board members can be followed live over the Internet.

### RISK MANAGEMENT

Good corporate governance entails the responsible handling of commercial risks. The Executive Board of TUI AG and the management of the TUI Group have comprehensive general and company-specific reporting and monitoring systems available to identify, assess and manage these risks. These systems are continually developed, adjusted to match changes in overall conditions and reviewed by the auditors. The Executive Board regularly informs the Supervisory Board about existing risks and changes to these risks. The Audit Committee deals in particular with monitoring the accounting process, including reporting, the effectiveness of the internal control and risk management systems and the internal auditing system, compliance and audit of the annual financial statements.

More detailed information about risk management in the TUI Group is presented in the Risk Report. It also contains the report on the accounting-related internal control and risk management system required in accordance with the German Commercial Code (sections 289 (5), 315 (2) no. 5 HGB).

→ *Risk Report see page 49*

### TRANSPARENCY

TUI provides immediate, regular and up-to-date information about the Group's economic situation and new developments to capital market participants and the interested public. The Annual Report and the Interim Reports are published within the applicable timeframes. The Company publishes press releases and ad hoc announcements, if required, on topical events and any new developments. Moreover, the company website at www.tuigroup.com provides comprehensive information on TUI Group and the TUI share.

The scheduled dates for the principal regular events and publications – such as the AGM, Annual Report and Interim Reports – are set out in a financial calendar. The calendar is published well in advance and made permanently accessible to the public on TUI AG's website.

### DIRECTORS' DEALINGS

The Company was informed by Prof. Klaus Mangold, Alexey Mordashov, Friedrich Joussen, Horst Baier, Dr Elke Eller and William Waggott of notifiable purchase and sale transactions of TUI AG shares or related financial instruments by directors (directors' dealings or managers' transactions) concerning financial year 2015/16. Details are provided on the Company's website.

Purchase and sales transactions by members of the boards were governed by the TUI Share Dealing Code, adopted by the Executive Board on 16 December 2014 for TUI Group, alongside corresponding statutory provisions. The TUI Share Dealing Code will be adjusted as Regulation (EU) 596/2014 ("Market Abuse Regulation") has entered into force.

Apart from Alexey Mordashov (share ownership: approx. 19.3 %), no member of the Executive Board or Supervisory Board holds shares in TUI AG, related options or other derivatives representing 1 % or more of the capital stock. Details regarding share ownership of individual members are presented in the table on the Supervisory Board and Executive Board.

→ *See from page 114*

### ACCOUNTING AND AUDITING

TUI AG prepares its consolidated financial statements and consolidated interim financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The statutory annual financial statements of TUI AG, which form the basis for the dividend payment, are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared by the Executive Board, audited by the auditors and approved by the Supervisory Board. The interim reports are discussed between the Audit Committee and the Executive Board prior to publication. The consolidated financial statements and the financial statements of TUI AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, the auditors elected by the 2016 Annual General Meeting. The audit was based on German auditing rules, taking account of the generally accepted auditing standards issued by the German Auditors' Institute as well as the International Standards on Auditing. It also covered risk management and compliance with reporting requirements on corporate governance pursuant to section 161 of the German Stock Corporation Act and Listing Rules 9.8.7 R and 9.8.10.

→ *See audit opinion by the auditors on page 269*

The condensed consolidated interim financial statements and management reports as at 31 December 2015, 31 March and 30 June 2016 were examined by the auditors.

In addition, a contractual agreement was concluded with the auditors to the effect that the auditors will immediately inform the Supervisory Board of any grounds for disqualification or partiality as well as of all findings and events of importance arising during the performance of the audit. There were no grounds to provide such information in the framework of the audit of financial year 2015/16.

## Compliance

TUI Group's Compliance Management System is a fundamental element of our commitment to commercial, environmental and socially responsible activity and operations. It is underlined by our membership in the UN Global Compact and therefore forms an indispensable part of TUI Group's corporate culture and our corporate governance activities.

The strategic goal of TUI Group's Compliance Management System is to prevent misconduct and avoid liability risks for the Company, its legal representatives, executives and employees and protect the reputation of the Company.

### COMPLIANCE MANAGEMENT SYSTEM

TUI Group's Compliance Management System is based on three pillars: prevention, discovery and response, which, in turn, comprise a large number of internal measures and processes.

**COMPLIANCE MANAGEMENT PROCESSES**

| PREVENTION | EXPOSURE | REACTION |
|---|---|---|
| *Compliance Policies and Group Policies*<br>*Compliance Training*<br>*Compliance Communication*<br>*Compliance Information*<br>*Compliance Risk Identification and Risk Assessment* | *Reporting*<br>*Leads*<br>*Investigations* | *Implementation of Process Controls*<br>*Exchange with Management and local Compliance Officers*<br>*Disciplinary Measures* |

In the completed financial year, TUI Group's Compliance Management System was subjected to a design audit by a leading auditing firm in accordance with auditing standard PS 980 of the German Institute of Auditors. The audit confirmed that TUI Group's Compliance Management System has been designed so as to meet the requirements of that certification standard. In the run-up to the audit, the Group-wide Compliance Management System had been readjusted and compliance processes had been harmonised aross the Group.

### COMPLIANCE CULTURE

The compliance culture forms the basis for the appropriateness and effectiveness of the Compliance Management System. It reflects management's fundamental attitude and conduct and the role of the supervisory body.

It is expressed in our corporate value "Trusted", appealing to our employees' personal responsibility and their honesty and sincerity in handling customers, stakeholders and employees.

### CODE OF CONDUCT/SUPPLIERS' CODE OF CONDUCT

The Code of Conduct, drawn up for the entire TUI Group, is a further embodiment of our compliance culture and enshrines guiding principles for everyone to follow, from executives and senior management to every Group employee. It defines minimum standards aimed at assisting our employees in their everyday work and providing orientation in conflict situations.

⊕ *Compliance online: www.tuigroup.com/en-en/about-us/compliance*

The Suppliers' Code of Conduct forms the counterpart to TUI's Code of Conduct. It details our ethical, social and legal expectations of our business partners. All business partners are required by contract to observe all national and international anti-corruption laws applicable to the supplier relationship. This places our business relationship with our partners on a solid legal and social basis.

### COMPLIANCE RULES

In addition, the principles set out in the Code of Conduct are detailed in various policies and rules reflecting the legal requirements. This is supported by our Group-wide policy management, developing the standards for Group-wide policies and coordinating incorporation of the relevant internal stakeholder groups, e.g. other departments or the works council. This approach is designed to provide TUI Group with a set of policies which are as complete and comprehensible as possible without seeking overregulation.

TUI Group's Compliance Rules offer guidance on appropriate conduct regarding gifts and invitations, data protection and trade sanctions. All groups of employees have thus been acquainted with the policies of relevance to their everyday work.

### COMPLIANCE PROGRAMME

In the period under review, the Compliance Programme focused on various issues including anti-corruption measures, protecting free and fair competition, data protection and the handling of trade sanctions including anti-money laundering.

In the completed financial year, a software was used to facilitate risk identification based on self-disclosure by TUI Group companies, above all for the above topics: it was evaluated on the basis of the criteria of likelihood of occurrence and potential damage (including reputational damage). The results of identified compliance risks are used to derive corresponding risk-minimising measures, which are agreed with the relevant bodies, and implementation of the measures is automated.

Moreover, TUI Group focused even more strongly on data protection, which had already played a major role. Numerous measures were initiated, e.g. structured coordination of all technical functions in the Company relating to data protection law. As an international organisation, TUI Group will therefore be prepared for future European changes in the overall framework for data protection law.

### COMPLIANCE TRAINING

Compliance training is a key element of TUI's Compliance Management System, with its focus on preventing misconduct, and a crucial component of TUI Group's Compliance culture. It is carried out according to a graded concept: managers and staff at TUI have all benefited from face-to-face teaching and online programmes. This enables all our employees to acquaint themselves with Compliance and the underlying corporate values, regardless of their position in the company hierarchy and their geographical location. In the completed financial year, the online training programme was extended so as to include a refresher course on TUI's Code of Conduct. It has now been rolled out in the Group companies. In addition, TUI companies and sectors offered training schemes with their own specific focus to raise awareness of challenges they might face.

### WHISTLEBLOWING

In agreement with various stakeholder groups, TUI offers its managers and employees a Group-wide whistleblower system to enable serious infringements of the corporate values anchored in TUI's Code of Conduct to be reported anonymously and without reprisals. This whistleblowing system is currently available to staff in 47 countries. All reports are followed up in the interests of all stakeholders and the Company. Our top priority is to ensure confidentiality and handle information discreetly. Any incidents resulting from the use of the whistleblower system are reviewed by Group Legal Compliance in conjunction with Group Audit. Infringements are fully investigated in the interests of all our staff and the Company itself.

### COMPLIANCE STRUCTURE

TUI Group's Compliance structure supports those responsible in the task of communicating the values and rules and anchoring them in the Group. It ensures that Compliance requirements are implemented throughout the Group in different countries and cultures. The decentralised Compliance structure was reinforced by additional staff resources in recent months in order to respond to the requirements resulting from structural change and internationalisation. Under the aegis of the Chief Legal Compliance Officer, Group Legal Compliance work with the decentralised Compliance Officers to perform the following tasks at different management levels:

- Raising awareness of Compliance and the technical issues allocated to Legal Compliance
- Achieving the goals of the Code of Conduct and the Compliance Rules
- Providing training
- Advising managers and employees
- Securing the necessary exchange of information
- Monitoring national and international legislative initiatives
- Providing regular reports

# Remuneration Report

The remuneration report outlines the remuneration of the members of the Executive Board of TUI AG as well as the remuneration of the members of its Supervisory Board in accordance with the articles of association. The remuneration report is based, in particular, on the recommendations of the German Corporate Governance Code ("GCGC"), the requirements of the German Commercial Code (Handelsgesetzbuch) and the German Stock Corporation Act (Aktiengesetz) and, to the extent practicable, the requirements of the UK Corporate Governance Code ("UK-CGC").

TUI AG is a German stock corporation that is also listed on the London Stock Exchange. Where mandatory provisions regarding the governance of or legal requirements for a German stock corporation are affected these are disclosed in this report and placed in context with the UK-CGC, as required.

## Remuneration of the Executive Board

### I. APPROVAL OF THE REMUNERATION SCHEME BY SHAREHOLDERS

A new remuneration scheme was proposed for Executive Board members in financial year 2009/10 and approved by the shareholders of TUI AG at the Annual General Meeting on 17 February 2010. The scheme is designed to create incentives for sustained growth and robust financial performance in the TUI Group.

Although common practice at many of the companies applying the UK-CGC, the shareholders of TUI AG do not currently vote on the remuneration policy on an annual basis. However, the approach adopted by TUI AG reflects the practice at most German stock corporations and is in compliance with the German Stock Corporation Act.

## II. GENERAL PRINCIPLES

Following a recommendation from the Presiding Committee and according to section 87(1) sentence 1 German Stock Corporation Act, the Supervisory Board determines the remuneration of the individual Executive Board members. It also regularly reviews the remuneration scheme for the Executive Board.

→ *For further remits, please see the Chairman's letter page 9*

The following principles, in particular, are taken into account in this regard:

- Clarity and transparency.
- Appropriateness and conformity with tasks, responsibilities and success of each individual Executive Board member, including in the relevant environment of comparable international firms, and taking into account standard practice at other major German companies.
- Economic position, performance and sustainable development of the company.
- Appropriate correlation between the levels of fixed remuneration and performance-based remuneration.
- Tying a material portion of total remuneration to the achievement of ambitious, long-term performance targets.
- Appropriateness in horizontal and vertical comparison (see page 141).
- Ability to be competitive on the market for highly qualified Executive Board members.
- Tying shareholder interest to value increase and distribution of profits (e. g. total shareholder return indicator) with corresponding incentives for Executive Board members.

The remuneration scheme currently does not contain any malus or clawback terms. This position will continue to be monitored.

## III. REMUNERATION OF THE EXECUTIVE BOARD IN FINANCIAL YEAR 2015/16

In financial year 2015/16, the remuneration for the Executive Board comprises: (1) a fixed remuneration; (2) an annual performance-based remuneration (Jahreserfolgsvergütung – "JEV"); (3) virtual shares of TUI AG in accordance with the Long-Term Incentive Plan ("LTIP"); (4) fringe benefits; (5) pension entitlements; and (6) a potential additional remuneration in cash or in virtual shares (Additional Remuneration).

Details are set out in the following tables:

### 1. FIXED REMUNERATION

#### PURPOSE AND LINK TO COMPANY STRATEGY

Highly-qualified Executive Board members who are needed to develop and implement company strategy are to be attracted and retained.

The remuneration should be commensurate with the abilities, experience and tasks of the individual Executive Board member.

#### PROCEDURE

In determining the fixed remuneration the Supervisory Board takes into account, in particular, the relevant general principles.

The fixed remuneration is paid in twelve equal instalments at the end of each month. If the service contract begins or ends in the course of the year relevant for payment of the remuneration, the fixed annual remuneration will be paid pro-rata for that year.

The remuneration is generally reviewed when service contracts of Executive Board members are extended, and fixed for the term of the new service contract. A review of the remuneration can also take place during the term of a service contract in particular if there is a change with respect to the tasks or responsibility of an Executive Board member.

### 2. ANNUAL PERFORMANCE-BASED REMUNERATION (JAHRESERFOLGSVERGÜTUNG – "JEV")

#### PURPOSE AND LINK TO COMPANY STRATEGY

The JEV is intended to motivate Executive Board members to achieve ambitious and challenging financial and strategic performance targets throughout the financial year. The performance targets are reflective of the company strategy and aimed at increasing corporate value.

#### PROCEDURE

The JEV is calculated on the basis of a group performance indicator and the individual performance of the Executive Board member. The performance reference period is the financial year of TUI AG.

An individual target amount ("Target Amount") is agreed for each Executive Board member in their service contract. Since 1 October 2010 the performance target has been the reported earnings before interest, tax and amortisation of goodwill ("Reported Group EBITA"). The target value for the one-year performance reference period for the reported group EBITA performance target will be set each year by the Supervisory Board.

To measure performance, the expected reported group EBITA will be compared with the corresponding actual value of the reported group EBITA as reported in the audited consolidated accounts of TUI AG to be prepared in accordance with the accounting rules in force at the time. The degree of target achievement is determined as follows:

- If the value achieved is below the target value by 50 % or more, this is equivalent to a target achievement of 0 %.
- If the value achieved corresponds to the target value, this is equivalent to a target achievement of 100 %.
- If the value achieved exceeds the target value by 50 % or more, this is equivalent to a target achievement of 187.5 %.

In the event of a reported group EBITA of between 50 % below target value and target value, any award will be based on a linear interpolation between 0 % and 100 % and in the event of a reported group EBITA of between target value and 50 % above target value linear interpolation between 100 % and 187.5 % will be used to determine the degree of target achievement. The degree of target achievement will be rounded to two decimal places, as is customary in commercial practice.

At the discretion of the Supervisory Board, the degree of target achievement for the performance target can be multiplied by a factor of between 0.8 and 1.2, based on the Executive Board member's achievement of individual performance targets and other performance indicators such as customer satisfaction and / or employee satisfaction metrics.

The figure resulting from the multiplication of the target amount by the degree of target achievement for the reported group EBITA and the discretionary multiplier will be paid out in cash in the month following the approval by the Supervisory Board of the annual accounts of TUI AG for the respective financial year. If the service contract begins or ends in the course of the financial year relevant for the grant of the JEV, the claims for payment of the same will generally be pro-rata.

#### CAP

The JEV is capped annually and individually for each Executive Board member; for the figures, see the table on page 132.

In accordance with section 87(1) sentence 3 German Stock Corporation Act, the Supervisory Board is entitled to limit the amount of the JEV to allow for extraordinary circumstances (e.g. takeover of the company, sale of parts of the company, uncovering of hidden reserves, external influences).

### 3. VIRTUAL SHARES ACCORDING TO THE LONG-TERM INCENTIVE PLAN ("LTIP")

### 3.1 CALCULATION METHOD

#### PURPOSE AND LINK TO COMPANY STRATEGY

The long-term objective is to increase corporate and shareholder value by defining ambitious goals that are closely linked to the company's earnings, share price performance and dividends.

#### PROCEDURE

The LTIP is a performance share plan based on virtual shares and is assessed over a period of four years ("Performance Reference Period"). Payments are granted in annual tranches.

For Executive Board members, an individual target amount ("Target Amount") is agreed in the service contract. At the beginning of each financial year a provisional number of virtual shares, commensurate with the target amount, will be set. This will constitute the basis for the determination of the final performance-based payment for the tranche in question at the end of the respective performance reference period. To set this number, the target amount will be divided by the average Xetra price of TUI AG shares over the 20 prior trading days. The claim to a payment only arises upon expiry of the performance reference period and depends on whether or not the respective performance target is achieved.

The performance target for determining the amount of the final payout at the end of the performance reference period is the development of the total shareholder return ("TSR") of TUI AG relative to the development of the TSR of the Dow Jones Stoxx 600 Travel & Leisure ("Index"), whereby the ranking of the TUI AG TSR in relation to the index companies will be monitored over the entire performance reference period. The TSR is the aggregate of all share price increases plus the gross dividends paid over the performance reference period. Data from a reputable data provider (e.g. Bloomberg, Thomson Reuters) will be used for the purpose of establishing the TSR values for TUI AG and the index. The reference for the purpose of determining the rankings is the composition of the index on the last day of the performance reference period. The values for companies that were not listed over the entire performance reference period will be factored in on a pro-rata basis. The level of target achievement is established as follows depending on the ranking of the TSR of TUI AG relative to the TSR values of the index companies:

- a TSR value of TUI AG equivalent to the bottom and second to bottom value of the index corresponds to a target achievement of 0 %.
- a TSR value of TUI AG equivalent to the third to bottom value of the index corresponds to a target achievement of 25 %.
- a TSR value of TUI AG equivalent to the median of the index corresponds to a target achievement of 100 %.
- a TSR value of TUI AG equivalent to the third to top value of the index corresponds to a target achievement of 175 %.

For performance between the third to bottom and the third to top rank, linear interpolation will be used to determine the level of target achievement at between 25 % and 175 %. The degree of target achievement will be rounded to two decimal places, as is customary in commercial practice.

To determine the final number of virtual shares, the degree of target achievement will be multiplied by the provisional number of virtual shares on the final day of the performance reference period ("Final Number Of Virtual Shares"). The payout is determined by multiplying the final number of virtual shares by the average Xetra price of TUI AG shares over the 20 trading days prior to the end of the performance reference period. The payout which is calculated in this way will be due in the month following the approval of the annual accounts of TUI AG for the fourth financial year of the performance reference period and the resulting amount is paid out in cash. If the service contract begins or ends in the course of the financial year relevant for the grant of the LTIP, the claims for payment of the same will generally be pro-rata.

#### CAP

The LTIP is capped annually and individually for each Executive Board member; for the figures, see the table on page 132.

#### 3.2 DEVELOPMENT OF AGGREGATE VIRTUAL SHARES OF CURRENT EXECUTIVE BOARD MEMBERS (LTIP MODEL)

| | Number |
|---|---|
| **Balance as at 30 Sep 2015** | **1,072,420** |
| Virtual shares granted for financial year 2015/16* | 291,933 |
| Decrease in virtual shares | –378,708 |
| **Balance as at 30 Sep 2016** | **985,645** |

* William Waggott's LTIP tranche for financial year 2015/16 included in full, since LTIP granted in full at the beginning of the financial year

On 30 September 2016, former Executive Board members held no virtual shares in TUI AG (previous year: no virtual shares) that were granted after the merger of TUI AG and TUI Travel PLC ("TUI Travel") in December 2014 (the "Merger").

There are provisions totalling € 6,693.1 thousand and liabilities worth € 1,896.0 thousand (previous year: € 1,530.0 thousand) to cover entitlements under TUI AG's LTIP for current Executive Board members. Those provisions only cover liabilities arising from the LTIP of TUI AG.

### 4. FRINGE BENEFITS

#### PURPOSE AND LINK TO COMPANY STRATEGY

Fringe benefits offered should be competitive on the market for highly qualified Executive Board members.

#### PROCEDURE

Executive Board members receive the following fringe benefits:

- Reimbursement of business travel expenses in accordance with TUI AG's general business travel guidelines.
- Twice a year, free of charge, a holiday from within the World of TUI range, without any limitation as to tour operator, type of holiday, category or price. Spouses/partners are granted a 50 % discount on the catalogue price for the aforementioned vacations, and children still in education or training a 100 % discount. Apart from that, a reduction of 75 % (spouses/partners)/50 % (children still in education or training) is granted for flights.
- A suitable company car with driver or alternatively a car allowance of € 1.5 thousand gross per month.

Insurance cover is provided in line with the agreements applicable in Germany and the United Kingdom. This is offered as follows:

TUI AG provides insurance cover for accidents to the customary extent for Mr Joussen, Dr Eller, Mr Baier and Mr Ebel and will pay the corresponding insurance contributions for the terms of their service contracts. The coverage amounts to € 1,500.0 thousand for death and € 3,000.0 thousand for disablement. Furthermore, Mr Joussen, Dr Eller, Mr Baier and Mr Ebel receive an allowance towards health and long-term care insurance in the amount payable if the respective Executive Board member were an employee, but no more than half of each insurance premium.

Insofar as this is permitted by law, Mr Burling will remain a beneficiary, at the expense of TUI AG, of the UK term life, vocational disability and health insurance programmes. Mr Long and Mr Waggott received the fringe benefits on a pro-rata basis up to the time at which they left the Executive Board.

TUI AG also takes out criminal law protection insurance that provides cover for the Executive Board members regarding criminal and misdemeanour proceedings, if these proceedings are based on an act or a failure to act in the exercise of their duties for TUI AG. TUI AG also takes out suitable D&O insurance coverage for the Executive Board members to cover possible claims brought under private law on the basis of statutory liability provisions against one or more of the Executive Board members by a third party or the Company for damages for a breach of duty committed in the exercise of their duties. The D&O insurance provides for a deductible of 10 % of the damage up to 150 % of the fixed annual remuneration.

#### AMOUNT

The value of the company car, free holidays and insurance benefits received annually by an individual Executive Board member normally does not exceed € 100.0 thousand.

### 5. PENSION BENEFITS

#### PURPOSE AND LINK TO COMPANY STRATEGY

Highly-qualified Executive Board members who are needed to develop and implement company strategy are to be acquired and retained.

The pension entitlements should be competitive on the market for highly qualified Executive Board members and should provide them with a corresponding pension in their retirement.

#### PROCEDURE

Pensions are paid to former Executive Board members if they reach the predefined age limit or are permanently incapacitated. The Executive Board members are not entitled to receive transition payments upon leaving the Executive Board, with the exception of Mr Ebel who has an acquired right to receive transition payments under a legacy contract.

With regard to pension entitlements, different principles apply to Mr Joussen, Dr Eller, Mr Baier and Mr Ebel on the one hand and Mr Long, Mr Burling and Mr Waggott on the other hand due to the legacy systems in Germany and the UK.

Mr Joussen, Dr Eller, Mr Baier and Mr Ebel are entitled to pension benefits according to the pension commitments granted to Executive Board members of TUI AG ("TUI AG Pension Scheme"). These Executive Board members receive, on an annual basis, a contractually agreed amount that is paid into an existing pension scheme for the respective Executive Board member. The contributions to the company pension scheme carry an interest rate established in the pension commitment. The interest rate currently stands at 5 % p.a. The beneficiary may choose between a one-off payment, payment by instalments or pension payments.

The amounts agreed on in the service contracts of the aforementioned Executive Board members are:

- Mr Joussen: € 454.5 thousand per year. Mr Joussen becomes eligible for payment of the pension upon reaching the age of 62.
- Dr Eller: € 230.0 thousand per year. The amount will be provided on a pro-rata basis in connection with Dr Eller having taken up office on 15 October 2015. Dr Eller becomes eligible for payment of the pension upon reaching the age of 63.
- Mr Baier: € 267.75 thousand per year. Mr Baier becomes eligible for payment of the pension upon reaching the age of 60.
- Mr Ebel: € 207.0 thousand per year. Mr Ebel becomes eligible for payment of the pension upon reaching the age of 62.

Should Mr Joussen, Dr Eller, Mr Baier and Mr Ebel retire from TUI AG before the normal retirement date due to an ongoing occupational disability, they will receive an occupational disability pension until they are able to work again, but at most until they reach the normal retirement date.

Under certain circumstances, spouses, partners or cohabitants of the Executive Board members will, should the respective Executive Board member die, receive a survivor's pension worth 60 % of the pension for their lifetime or until remarriage. Children of Executive Board members will, should the respective Executive Board member die, receive an orphan's pension, paid as a maximum until they reach the age of 27. Children who have lost one parent will receive 20 % of the pension, and those who have lost both parents will receive 25 %. This claim is subject to the prerequisite that the child meets the requirements set out in section 32(3), (4), sentence 1 nos. 1 to 3 and (5) German Income Tax Act (Einkommensteuergesetz).

Mr Burling receives a fixed annual amount of € 225.0 thousand for his pension. This amount may be paid into a company pension scheme where possible or where the tax arrangements prevent payment into a pension scheme will be payable as cash for this specific purpose. Mr Waggott and Mr Long received the pension contribution on a pro-rata basis in each case up to the time at which they left the Executive Board:

- Mr Long: € 164.1 thousand.
- Mr Waggott: € 177.2 thousand.

**PENSIONS OF CURRENT EXECUTIVE BOARD MEMBERS UNDER THE TUI AG PENSION SCHEME**

| € '000 | Addition to / reversal of pension provisions | | Net present value as at | |
|---|---|---|---|---|
| | **2015 / 16** | 2014 / 15 | **30 Sep 16** | 30 Sep 15 |
| Friedrich Joussen | 1,130.2 | 1,876.7 | 3,006.9 | 1,876.7 |
| Horst Baier | 966.8 | 1,193.1 | 9,020.1 | 8,053.3 |
| Sebastian Ebel | 490.7 | 784.7 | 1,275.4 | 784.7 |
| Dr Elke Eller | 435.6 | 0.0 | 435.6 | 0.0 |
| **Total** | **3,023.3** | **3,854.5** | **13,738.0** | **10,714.7** |

At 30 September 2016, pension obligations for current Executive Board members totalled € 13,738.0 thousand (previous year balance sheet date: € 10,714.7 thousand) according to IAS 19 and € 10,745.2 thousand (previous year balance sheet date: € 9,233.1 thousand) according to commercial law provisions. In the period under review, the provision according to IAS 19 was increased by an amount of € 3,023.3 thousand (previous year: increase of € 3,854.5 thousand), with an increase of € 1,512.1 thousand (previous year: increase of € 2,861.2 thousand) according to the provisions of the German Commercial Code.

Where the above table shows a corresponding amount, the pension obligations for beneficiaries are funded via the conclusion of pledged reinsurance policies. As the reinsurance policy fully covers the pension obligations for former and current Executive Board members, the insurance was deducted as an asset from the pension obligations.

### 6. POTENTIAL ADDITIONAL REMUNERATION IN CASH OR IN VIRTUAL SHARES ("ADDITIONAL REMUNERATION")

**PURPOSE AND LINK TO COMPANY STRATEGY**

The additional remuneration is intended to compensate exceptional performance by Executive Board members.

**PROCEDURE**

The Supervisory Board may grant an additional remuneration in cash or in virtual shares in exceptional circumstances such as an extraordinarily heavy workload in connection with the merger between TUI AG and TUI Travel or a realization of synergies that exceeds the planned level by more than 20 % over budget. The Supervisory Board determines whether and to what amount such additional remuneration will be paid.

**CAP**

The additional remuneration is capped annually and individually for each Executive Board member; for the figures, see the table below.

### 7. REMUNERATION CAPS

The following caps apply to the remuneration (remuneration components and total remuneration) payable to Executive Board members for a financial year:

**REMUNERATION CAPS**

| € '000 | Fixed remuneration[2] | JEV | LTIP | Additional remuneration | Maximum total remuneration[3] |
|---|---|---|---|---|---|
| Friedrich Joussen | 1,100.0 | 2,070.0 | 4,440.0 | 920.0 | 7,500.0 |
| Peter Long[1] | 1,100.0 | 2,070.0 | 4,440.0 | 920.0 | 7,500.0 |
| Horst Baier | 740.0 | 1,012.5 | 2,025.0 | 450.0 | 4,200.0 |
| David Burling | 600.0 | 900.0 | 1,500.0 | 400.0 | 3,450.0 |
| Sebastian Ebel | 680.0 | 720.0 | 1,500.0 | 320.0 | 3,380.0 |
| Dr Elke Eller[1] | 680.0 | 675.0 | 1,260.0 | 300.0 | 3,100.0 |
| William Waggott[1] | 720.0 | 810.0 | 2,100.0 | 360.0 | 4,080.0 |

1 Amount for the whole year (12 months), possibly pro rated caps: see from page 138
2 Fixed amount, no cap applied
3 Contractually agreed cap for total remuneration (including fixed remuneration, JEV, LTIP, company pension, additional remuneration and fringe benefits)

### IV. ROLLED-OVER TUI TRAVEL SHARES ("SHARE AWARDS")

During their period of service as Executive Directors of TUI Travel, Mr Long and Mr Waggott received long-term incentives in annual tranches in the form of share awards with a vesting period of three years. Mr Burling, who was not an Executive Director of TUI Travel, likewise received these share awards on the basis of his employment relationship with TUI Travel. The conditions of the share awards were laid down by TUI Travel's Remuneration Committee and approved by the shareholders.

Because of the three-year vesting period, some tranches were not yet due and payable at the time of the merger. Following the completion of the merger and the subsequent delisting of TUI Travel, it was agreed that the outstanding share awards would be rolled over to TUI AG. On the due date, all share awards were converted into a corresponding number of TUI AG shares. On the one hand, the share awards result from a Deferred Annual Bonus Scheme ("DABS"). This comprises deferred annual bonus amounts that were earned during periods prior to the merger. On the other hand, share awards arise under the Performance Share Plan ("PSP"). The performance conditions applicable to the PSP are as follows: The conversion is carried out on the basis of the earnings per share (EPS), the total shareholder return (TSR) and the return on invested capital (ROIC) over a three-year period. The EPS is weighted at 50 %, the TSR at 25 % and the ROIC at 25 %.

After the merger, the Supervisory Board agreed that the performance would be measured up to the date of the merger on the basis of TUI Travel's performance and from the date of the merger onwards on the basis of TUI AG's performance. The aggregate performance would then be assessed for the underlying assessment period in each case.

Because Mr Long and Mr Waggot left the Executive Board during the course of financial year 2015 / 16, the Supervisory Board agreed with them that their outstanding claims to the share awards would be paid out prematurely. Mr Long received an amount of € 5,695.1 thousand as compensation for all of his outstanding share awards; the payment became due on 30 September 2016. Mr Long did not take part in the passing of the resolution by the Supervisory Board on 15 September 2016 on the redemption of any share awards still existing at that time. Mr Waggot received an amount of € 2,520.0 thousand as compensation for all of his outstanding share awards; the payment became due on 31 August 2016.

In the context of paying out the rolled-over share awards of Messrs. Long and Waggot, the Supervisory Board also agreed with Mr Burling that all of his outstanding claims to the share awards would be paid out. In this connection, Mr Burling received a compensation payment of € 1,741.0 thousand; this payment became due on 30 September 2016.

The share awards of Messrs. Long, Burling and Waggot that became due and payable and / or were paid out prematurely during financial year 2015 / 16 as well as the share awards of Johan Lundgren, who left the Executive Board during financial year 2014 / 15, that have become due and payable and that are still outstanding are shown in the following table.

**FORMER EXECUTIVE DIRECTORS OF TUI TRAVEL PLC**
**OUTSTANDING DABS/DABLIS SHARE AWARDS AT 30 SEPTEMBER 2016 (AWARDED BY TUI TRAVEL PLC)**
**TUI AG CLOSING SHARE PRICE AT 30 SEP 2016 (€): 12.69**

| Executive Director | | TUI AG shares/ nil-cost options held at 1 October 2015 | Award date | Market price (TUI AG) per share at award (€) |
|---|---|---|---|---|
| Peter Long | DABS | 102,401[1] | 6 Dec 12 | 8.773 |
| | DABS | 409,607[2] | 6 Dec 12 | 8.773 |
| | PSP | 238,837[3] | 6 Dec 12 | 8.773 |
| | DABS | 72,436[1] | 12 Dec 13 | 11.249 |
| | DABS | 289,747[2, 4] | 12 Dec 13 | 11.249 |
| | PSP | 134,976[3] | 12 Dec 13 | 11.249 |
| | DABS | 64,626[1, 5] | 8 Dec 14 | 14.376 |
| **Total** | | **1,312,630** | | |
| William Waggott | DABS | 53,548[1] | 6 Dec 12 | 8.773 |
| | DABS | 214,194[2] | 6 Dec 12 | 8.773 |
| | PSP | 92,725[3] | 6 Dec 12 | 8.773 |
| | DABS | 39,127[1] | 12 Dec 13 | 11.249 |
| | DABS | 156,508[2, 4] | 12 Dec 13 | 11.249 |
| | PSP | 58,224[3] | 12 Dec 13 | 11.249 |
| | DABS | 17,068[1, 5] | 8 Dec 14 | 14.376 |
| **Total** | | **631,394** | | |
| David Burling | DABS | 16,858[1] | 6 Dec 12 | 8.773 |
| | DABS | 67,435[2] | 6 Dec 12 | 8.773 |
| | PSP | 42,147[3] | 6 Dec 12 | 8.773 |
| | DABS | 16,077[1] | 12 Dec 13 | 11.249 |
| | DABS | 64,310[2, 4] | 12 Dec 13 | 11.249 |
| | PSP | 31,758[3] | 12 Dec 13 | 11.249 |
| | DABS | 9,975[1, 5] | 8 Dec 14 | 11.278 |
| | PSP | 54,902[3, 5] | 8 Dec 14 | 14.376 |
| **Total** | | **248,560** | | |
| Johan Lundgren | DABS | 68,152[1] | 6 Dec 12 | 8.773 |
| | DABS | 272,611[2] | 6 Dec 12 | 8.773 |
| | PSP | 118,013[3] | 6 Dec 12 | 8.773 |
| | DABS | 47,723[1] | 12 Dec 13 | 11.249 |
| | DABS | 190,892[2, 4] | 12 Dec 13 | 11.249 |
| | PSP | 74,104[3] | 12 Dec 13 | 11.249 |
| | DABS | 21,723[1, 5] | 8 Dec 14 | 14.376 |
| **Total** | | **771,495** | | |
| | | | | |
| **GRAND TOTAL** | | **2,964,079** | | |

All outstanding share awards shown were made over TUI Travel PLC shares. At vest/exercise, shares will convert to TUI AG shares at the merger conversion ratio of 0.399.
1 DABS deferred award: The deferred element of annual bonus, subject to forfeiture for gross misconduct, bankruptcy or certain other circumstances in accordance with the scheme rules.
2 DABS matching award: A multiple of the deferred award, subject to performance conditions over the three-year vesting period.
3 PSP award: Subject to performance conditions over the three-year vesting period.
4 Change to remuneration structure with effect from 1 October 2014 – last matching awards made in December 2013.
5 All awards made in December 2014 are phantom awards and will therefore be settled in cash on vesting.

| TUI AG shares/ nil cost options vested and released during the year ended 30 September 2016 | Market price (TUI AG) per share at vesting (€) | Market value at vesting (€) | Planned/Actual vesting and release date | TUI AG shares/ nil-cost options lapsed during the year ended 30 September 2016 | Maximum TUI AG shares/nil-cost options held at 30 September 2016 (see Note 5) | Maximum value based on TUI AG share price of € 12.69 at 30 September 2016 (€) |
|---|---|---|---|---|---|---|
| 102,401 | 16,289 | 1,668,010 | 6 Dec 15 | 0 | 0 | 0 |
| 354,064 | 16,289 | 5,767,348 | 6 Dec 15 | 55,543 | 0 | 0 |
| 206,451 | 16.289 | 3,362,880 | 6 Dec 15 | 32,386 | 0 | 0 |
| 72,436 | 12.500 | 905,463 | 30 Sep 16 | 0 | 0 | 0 |
| 217,310 | 12.500 | 2,716,378 | 30 Sep 16 | 72,437 | 0 | 0 |
| 101,232 | 12.500 | 1,265,400 | 30 Sep 16 | 33,744 | 0 | 0 |
| 64,626 | 12.500 | 807,838 | 30 Sep 16 | 0 | 0 | 0 |
| **1,118,520** | | **16,493,318** | | **194,110** | **0** | **0** |
| 53,548 | 16.289 | 872,243 | 6 Dec 15 | 0 | 0 | 0 |
| 185,149 | 16.289 | 3,015,892 | 6 Dec 15 | 29,045 | 0 | 0 |
| 80,151 | 16.289 | 1,305,580 | 6 Dec 15 | 12,574 | 0 | 0 |
| 39,127 | 11.600 | 453,873 | 31 Aug 16 | 0 | 0 | 0 |
| 117,381 | 11.600 | 1,361,620 | 31 Aug 16 | 39,127 | 0 | 0 |
| 43,668 | 11.600 | 506,549 | 31 Aug 16 | 14,556 | 0 | 0 |
| 17,068 | 11.600 | 197,989 | 31 Aug 16 | 0 | 0 | 0 |
| **536,092** | | **7,713,745** | | **95,302** | **0** | **0** |
| 16,858 | 16.289 | 274,600 | 6 Dec 15 | 0 | 0 | 0 |
| 58,291 | 16.289 | 949,502 | 6 Dec 15 | 9,144 | 0 | 0 |
| 36,439 | 16.289 | 593,555 | 6 Dec 15 | 5,708 | 0 | 0 |
| 16,077 | 12.500 | 200,963 | 30 Sep 16 | 0 | 0 | 0 |
| 48,233 | 12.500 | 602,906 | 30 Sep 16 | 16,077 | 0 | 0 |
| 23,819 | 12.500 | 297,731 | 30 Sep 16 | 7,939 | 0 | 0 |
| 9,975 | 12.500 | 124,688 | 30 Sep 16 | 0 | 0 | 0 |
| 41,177 | 12.500 | 514,706 | 30 Sep 16 | 13,725 | 0 | 0 |
| **209,692** | | **3,043,945** | | **38,868** | **0** | **0** |
| 68,152 | 16.289 | 1,110,128 | 6 Dec 15 | 0 | 0 | 0 |
| 235,645 | 16.289 | 3,838,421 | 6 Dec 15 | 36,966 | 0 | 0 |
| 102,011 | 16.289 | 1,661,657 | 6 Dec 15 | 16,002 | 0 | 0 |
| 0 | | 0 | 12 Dec 16 | 0 | 47,723 | 605,605 |
| 0 | | 0 | 12 Dec 16 | 0 | 190,892 | 2,422,419 |
| 0 | | 0 | 12 Dec 16 | 0 | 74,104 | 940,380 |
| 0 | | 0 | 8 Dec 17 | 0 | 21,723 | 275,665 |
| **405,808** | | **6,610,207** | | **52,968** | **312,719** | **3,968,404** |
| | | | | | | |
| **2,270,112** | | **33,861,215** | | **52,968** | **312,719** | **3,968,404** |

## V. PAYMENTS/BENEFITS IN CASE OF PREMATURE TERMINATION OF EXECUTIVE BOARD MEMBERSHIP

### 1. GENERAL CONTRACTUAL FRAMEWORK

The payments to be made to an Executive Board member on the premature termination of his service contract without good cause have in principle been limited in the service contracts of Messrs. Joussen and Baier to an amount equal to twice their annual remuneration. It has been agreed in the service contracts of Dr Eller, Mr Ebel, Mr Long, Mr Burling and Mr Waggott that payments to be made on the premature termination of their Executive Board membership without good cause may not – in the case of premature termination during the first year after the coming into force of the service contract – exceed an amount equal to twice their annual remuneration and – in the case of premature termination after the end of the first year after the coming into force of the service contract – an amount equal to their annual remuneration ("Severance Pay Cap"). In each case, no more than the remaining term will be compensated. The severance pay cap is calculated on the basis of the target direct remuneration (fixed remuneration, target JEV and target LTIP) for the last expired financial year and, if relevant, the expected target direct remuneration for the current financial year. If the service contract is terminated for cause without notice, no payments will be made to Executive Board members.

In cases of premature termination of the service contract, the JEV and payments under the LTIP will be governed as follows:

- JEV:
  - If the company terminates the service contract without notice before the end of the one-year performance reference period for good cause attributable to the beneficiary or if the beneficiary terminates the service contract without good cause, the claim to the JEV for the performance reference period in question will be forfeited and no alternative remuneration or compensation will be paid.
  - In all other cases of premature termination of the service contract before the end of the one-year performance reference period, the JEV will generally be paid on a pro-rata basis.

- LTIP:
  - If the company terminates the service contract without notice before the end of the respective performance reference period for good cause attributable to the Executive Board member, or if the Executive Board member terminates the service contract without good cause, all claims under the LTIP will lapse for all tranches not yet paid and no alternative remuneration or compensation will be paid.
  - If the service contract ends before the expiry of the performance reference period for other reasons, the claims under the LTIP will be maintained for tranches not yet paid. The tranche for the current financial year will generally be reduced on a pro-rata basis. The pay-out will be calculated in the same way as in the case of the continuation of the service contract.

The service contracts of the Executive Board members do not contain change of control clauses.

### 2. PAYMENTS/BENEFITS IN FINANCIAL YEAR 2015/16 ON ACCOUNT OF THE PREMATURE TERMINATION OF EXECUTIVE BOARD MEMBERSHIP

The Supervisory Board and Mr Waggott agreed that Mr Waggott would resign as a member of the Executive Board with effect from 30 June 2016. In this respect, the Supervisory Board and Mr Waggott agreed that their service relationship would end by mutual agreement with effect from 30 June 2016. Mr Waggott received his fixed remuneration, the fringe benefits, the JEV (assumption: 100 % target achievement, individual performance factor of 1.0) and the amount for pension purposes on a pro-rata basis up to the termination date. Because of the premature termination of his service contract, Mr Waggott also received a severance payment of € 3,681.4 thousand that became due and payable on 31 August 2016. This includes claims under the LTIP of TUI AG for financial year 2014 / 15 and part of financial year 2015 / 16 in the amount of € 1,075.0 thousand.

Mr Lundgren, who left the Executive Board during financial year 2014 / 15, was subject to a post-contractual covenant not to compete that was valid until 30 September 2016. For the duration of the post-contractual covenant not to compete (1 June 2015 until 30 September 2016), TUI AG paid Mr Lundgren compensation in the amount of € 144.9 thousand per month or € 1,739.1 thousand for financial year 2015 / 16 as a whole. This includes the settlement of claims under the LTIP of TUI AG for financial year 2014 / 15 and part of financial year 2015 / 16 in the amount of € 1,075.0 thousand.

## VI. OTHER PAYMENTS/BENEFITS FOR EXECUTIVE BOARD MEMBERS WHO LEFT THE BOARD IN FINANCIAL YEAR 2015/16

Mr Long left the Executive Board as planned with effect from the end of the Annual General Meeting 2016 held on 9 February 2016. At the same Annual General Meeting, Mr Long was elected by the shareholders as a member of the Supervisory Board of TUI AG. The shareholders also passed a resolution during this Annual General Meeting to change the remuneration of the members of the Supervisory Board to fixed remuneration only (cf. page 142). Against this background, the Supervisory Board deemed it appropriate to agree with Mr Long that his claims under the variable remuneration components JEV and LTIP would be paid out prematurely and on a pro-rata basis. As such, Mr Long received € 396.6 thousand as JEV (assumption: 100 % target achievement, individual performance factor of 1.2) and a compensation payment of € 1,618.6 thousand under the LTIP for financial year 2014 / 15 and a compensation payment of € 404.7 thousand under the LTIP for part of financial year 2015 / 16 on 30 September 2016. Furthermore, the Supervisory Board granted Mr Long additional pro-rata remuneration of € 179.6 thousand for exceeding the merger synergies planned for financial year 2015 / 16 and for his heavy workload connected to the successful post-merger integration. Mr Long did not take part in the passing of the resolution by the Supervisory Board on the premature payment of the variable remuneration components on 15 September 2016.

### VII. PENSION PAYMENTS MADE TO PAST EXECUTIVE BOARD MEMBERS

In financial year 2015 / 16, the pension payments to former Executive Board members and their surviving dependants totalled € 4,933.2 thousand (previous year: € 4,891.1 thousand).

Pension provisions for former members of the Executive Board and their dependants amounted as at the balance sheet date to € 84,294.2 thousand (previous year: € 79,754.3 thousand) as measured according to IAS 19 and to € 65,505.9 thousand (previous year: € 68,170.1 thousand) as measured according to commercial law provisions. In financial year 2015 / 16, the obligations for this group of persons increased by € 4,539.9 thousand (in financial year 2014 / 15 they decreased by € 610.1 thousand) according to IAS 19 and decreased by € 2,664.2 thousand (increased in the previous year by € 3,088.6 thousand) according to commercial law provisions.

### VIII. OVERVIEW: REMUNERATION OF INDIVIDUAL EXECUTIVE BOARD MEMBERS

#### 1. REMUNERATION OF INDIVIDUAL EXECUTIVE BOARD MEMBERS FOR FINANCIAL YEAR 2015/16

**REMUNERATION OF INDIVIDUAL EXECUTIVE BOARD MEMBERS FOR FINANCIAL YEAR 2015/16 (PURSUANT TO SECTION 314(6)(A) GERMAN COMMERCIAL CODE)**

| € '000 | Fixed remuneration[1] | JEV | Additional Remuneration | LTIP | **Total 2015 / 16** | Total 2014 / 15 |
|---|---|---|---|---|---|---|
| Friedrich Joussen | 1,145.4 | 970.2 | 920.0 | 0.0 | 3,035.6 | 11,867.9 |
| Peter Long[2] | 404.0 | 396.6 | 179.6 | 0.0 | 980.2 | 5,734.3 |
| Horst Baier[3] | 821.7 | 618.8 | 450.0 | 0.0 | 1,890.5 | 5,492.7 |
| David Burling | 642.1 | 421.8 | 400.0 | 0.0 | 1,463.9 | 2,077.8 |
| Sebastian Ebel | 698.0 | 337.5 | 320.0 | 0.0 | 1,355.5 | 3,162.6 |
| Dr Elke Eller[4] | 678.0 | 304.4 | 300.0 | 1,269.9 | 2,552.3 | 0.0 |
| William Waggott[5] | 553.5 | 270.0 | 0.0 | 0.0 | 823.5 | 3,270.1 |
| **Total** | **4,942.8** | **3,319.2** | **2,569.6** | **1,269.9** | **12,101.4** | |
| Previous year[6] | 4,642.7 | 5,079.6 | 1,640.0 | 24,219.0 | 35,581.4 | |

1 Incl. fringe benefits (without insurances under Group coverage).
2 Pro rated disclosure of all remuneration components until 9 February 2016.
3 Fixed remuneration includes € 63 k received for his seat on the supervisory board of Hapag Lloyd AG that is not counted towards fixed remuneration of TUI AG. JEV includes cash deferral of € 144.2 k from financial year 2013 / 14.
4 Pro rated disclosure of all remuneration components from 15 October 2015 on.
5 Pro rated disclosure of all remuneration components until 30 June 2016.
6 Previous year's values include remuneration of Johan Lundgren.

The discretionary multiplier of between 0.8 and 1.2 used to calculate the JEV (procedure description see above) and the additional remuneration (procedure description see above) were resolved under executing discretion in the framework of the service agreements of the members of the Executive Board. In terms of the discretionary multiplier the Supervisory Board, amongst others, considered the significantly increased employee satisfaction (engagement index on Group level) on the basis of a global employee survey conducted in financial year 2015 / 16 (comparison to survey results in financial year 2014 / 15). The defined discretionary multipliers also reflect the strong engagement of each member of the Executive Board in delivering results even though financial year 2015 / 16 has probably been the most challenging one in the tourism industry in the last decade due to terrorism and geopolitical events (Turkey demand slump, Brexit decision, GBP weakness). Against this background the Supervisory Board also considered that TUI AG strongly outperformed its key competitors in the industry. Furthermore, amongst others, the successful implementation of a senior leadership team, the beneficial disposal of the Hotelbeds Group, the huge progress in delivering a Group airline platform and the successful efforts to initiate a solution for the German airline were taken into account.

In terms of the Additional Remuneration the Supervisory Board considered the achievements of economic and cultural integration of the merged businesses. The merger synergies budgeted for financial year 2015/16 were exceeded by more than 20 % and each member of the Executive Board faced an enormous additional workload to drive the integration (e. g. intensive strategy communication, completing the organisational integration, establishing a common TUI culture).

The LTIP amount disclosed in this table corresponds to the fair value at grant date (acc. to IFRS 2). This amount takes into account all allocations accumulated over the entire contract period. The table of the "remuneration awarded" according to the GCGC shows the amount allocated in the respective financial year.

As in the prior year, the members of the Executive Board did not receive any loans or advances in financial year 2015 / 16.

Dr Eller received € 11.6 thousand from Nord / LB and Mr Long received £ 108.3 thousand from Royal Mail PLC for their activities – which were approved by the Supervisory Board during their Executive Board membership in financial year 2015 / 16 – in supervisory boards or comparable domestic and foreign corporate supervisory bodies to be set up in accordance with section 125 German Stock Corporation Act, which activities were not carried out on the basis of a shareholding of TUI AG in the companies concerned. This remuneration was not counted towards the remuneration of Executive Board members paid by TUI AG.

Pursuant to 4.2.5, attachment tables 1 and 2 GCGC, the two tables below (remuneration awarded and remuneration paid) show the benefits granted by TUI AG and the payments received.

## 2. REMUNERATION AWARDED

### REMUNERATION AWARDED

| € '000 | Friedrich Joussen Joint CEO, since 14 February 2013[1] | | | | Peter Long Joint CEO, 12 December 2014 until 9 February 2016[2] | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) | 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) |
| Fixed remuneration | 1,080.4 | 1,100.0 | 1,100.0 | 1,100.0 | 884.8 | 397.2 | 397.2 | 397.2 |
| Fringe benefits | 51.6 | 45.4 | 45.4 | 45.4 | 33.7 | 6.8 | 6.8 | 6.8 |
| **Total** | **1,132.0** | **1,145.4** | **1,145.4** | **1,145.4** | **918.4** | **404.0** | **404.0** | **404.0** |
| JEV | 920.0 | 920.0 | – | 2,070.0 | 920.0 | 332.2 | – | 747.5 |
| Additional Remuneration | 500.0 | 920.0 | – | 920.0 | 500.0 | 179.6 | – | 332.2 |
| LTIP | 1,805.6 | 1,494.8 | – | 4,440.0 | 1,805.6 | 539.7 | – | 1,603.3 |
| LTIP (2014/15–2017/18) | 1,805.6 | | | | 1,805.6 | | | |
| LTIP (2015/16–2018/19) | | 1,494.8 | – | 4,440.0 | – | 539.7 | – | 1,603.3 |
| **Total** | **4,357.6** | **4,480.2** | **1,145.4** | **8,575.4** | **4,144.0** | **1,455.6** | **404.0** | **3,087.1** |
| Pension/service costs[5] | 648.9 | 726.0 | 726.0 | 726.0 | 365.6 | 164.1 | 164.1 | 164.1 |
| **Total remuneration[6]** | **5,006.5** | **5,206.2** | **1,871.4** | **7,500.0** | **4,509.6** | **1,619.7** | **568.1** | **2,708.3** |

### REMUNERATION AWARDED

| € '000 | Horst Baier[3] CFO, since 8 November 2007 | | | | David Burling Member of Executive Board, since 1 June 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) | 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) |
| Fixed remuneration | 791.9 | 803.0 | 803.0 | 803.0 | 200.0 | 600.0 | 600.0 | 600.0 |
| Fringe benefits | 20.1 | 18.7 | 18.7 | 18.7 | 15.3 | 42.1 | 42.1 | 42.1 |
| **Total** | **811.9** | **821.7** | **821.7** | **821.7** | **215.3** | **642.1** | **642.1** | **642.1** |
| JEV | 450.0 | 450.0 | – | 1,012.5 | 133.3 | 400.0 | – | 900.0 |
| Additional Remuneration | 320.0 | 450.0 | – | 450.0 | – | 400.0 | – | 400.0 |
| LTIP | 823.5 | 681.8 | – | 2,025.0 | 203.3 | 505.0 | – | 1,500.0 |
| LTIP (2014/15–2017/18) | 823.5 | | | | 203.3 | | | |
| LTIP (2015/16–2018/19) | – | 681.8 | – | 2,025.0 | – | 505.0 | – | 1,500.0 |
| **Total** | **2,405.4** | **2,403.5** | **821.7** | **4,309.2** | **552.0** | **1,947.1** | **642.1** | **3,442.1** |
| Pension/service costs[5] | 401.2 | 22.3 | 22.3 | 22.3 | 75.0 | 225.0 | 225.0 | 225.0 |
| **Total remuneration[6]** | **2,806.7** | **2,425.8** | **844.0** | **4,200.0** | **627.0** | **2,172.1** | **867.1** | **3,450.0** |

## REMUNERATION AWARDED

| € '000 | Sebastian Ebel, Member of Executive Board, since 12 December 2014 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) | Dr Elke Eller, Member of Executive Board/Human Resources, since 15 October 2015 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) |
|---|---|---|---|---|---|---|---|---|
| Fixed remuneration | 547.0 | 680.0 | 680.0 | 680.0 | – | 654.2 | 654.2 | 654.2 |
| Fringe benefits | 14.3 | 18.0 | 18.0 | 18.0 | – | 23.8 | 23.8 | 23.8 |
| **Total** | **561.2** | **698.0** | **698.0** | **698.0** | **–** | **678.0** | **678.0** | **678.0** |
| JEV | 257.4 | 320.0 | – | 720.0 | – | 288.6 | – | 649.4 |
| Additional Remuneration | 320.0 | 320.0 | – | 320.0 | – | 300.0 | – | 300.0 |
| LTIP | 490.7 | 505.0 | – | 1,500.0 | – | 408.1 | – | 1,212.3 |
| LTIP (2014/15–2017/18) | 490.7 | | | | – | | | |
| LTIP (2015/16–2018/19) | – | 505.0 | – | 1,500.0 | – | 408.1 | – | 1,212.3 |
| **Total** | **1,629.3** | **1,843.0** | **698.0** | **3,238.0** | **–** | **1,674.8** | **678.0** | **2,839.7** |
| Pension/service costs[5] | 279.2 | 328.5 | 328.5 | 328.5 | – | 405.0 | 405.0 | 405.0 |
| **Total remuneration[6]** | **1,908.5** | **2,171.5** | **1,026.5** | **3,380.0** | **–** | **2,079.8** | **1,083.0** | **2,982.6** |

## REMUNERATION AWARDED

| € '000 | William Waggott[4], Member of Executive Board, 12 December 2014 until 30 June 2016 2014/15 | **2015/16** | 2015/16 (min.) | 2015/16 (max.) |
|---|---|---|---|---|
| Fixed remuneration | 555.0 | 540.0 | 540.0 | 540.0 |
| Fringe benefits | 28.5 | 13.5 | 13.5 | 13.5 |
| **Total** | **583.5** | **553.5** | **553.5** | **553.5** |
| JEV | 360.0 | 360.0 | – | 810.0 |
| Additional Remuneration | – | – | – | 360.0 |
| LTIP | 671.0 | 707.0 | – | 2,100.0 |
| LTIP (2014/15–2017/18) | 671.0 | | | |
| LTIP (2015/16–2018/19) | – | 707.0 | – | 2,100.0 |
| **Total** | **1,614.5** | **1,620.5** | **553.5** | **3,823.5** |
| Pension/service costs[5] | 190.0 | 177.2 | 177.2 | 177.2 |
| **Total remuneration[6]** | **1,804.5** | **1,797.7** | **730.7** | **4,000.7** |

1 Joint CEO until 9 February 2016; Member of the Executive Board since 15 October 2012
2 Member of the Executive Board since 3 September 2007
3 Fixed remuneration includes € 63 k received for his seat on the supervisory board of Hapag Lloyd AG that is not counted towards fixed remuneration of TUI AG.
4 Pro rated calculation of fixed remuneration, fringe benefits and pension contribution; disclosure of full-year values for variable remuneration components.
5 For Mr Joussen, Mr Baier, Mr Ebel and Dr Eller service costs acc. to IAS 19; for Mr Long, Mr Burling and Mr Waggott payments for pension contribution.
6 When contractually agreed cap for total remuneration to be paid is exceeded, LTIP is reduced proportionally.

## 3. REMUNERATION PAID

### REMUNERATION PAID

| € '000 | Friedrich Joussen<br>Joint CEO,<br>since 14 February 2013[1]<br>2014/15 | **2015/16** | Peter Long<br>Joint CEO,<br>12 December 2014<br>until 9 February 2016[2]<br>2014/15 | **2015/16** | Horst Baier<br>CFO,<br>since 8 November 2007<br>2014/15 | **2015/16** |
|---|---|---|---|---|---|---|
| Fixed remuneration | 1,080.4 | 1,100.0 | 884.8 | 397.2 | 791.9 | 803.0 |
| Fringe benefits | 51.6 | 45.4 | 33.7 | 6.8 | 20.1 | 18.7 |
| **Total** | **1,132.0** | **1,145.4** | **918.4** | **404.0** | **812.0** | **821.7** |
| JEV | 1,326.3 | 970.2 | 1,326.3 | 396.6 | 648.7 | 474.6 |
| Additional Remuneration | 500.0 | 920.0 | 500.0 | 179.6 | 320.0 | 450.0 |
| LTIP | – | 820.0 | – | 2,023.2 | 1,853.6 | 1,220.2 |
| Cash deferral (FY 2012/13) | | | | | 152.4 | |
| Cash deferral (FY 2013/14) | | | – | | 171.2 | 144.2 |
| Cash deferral (FY 2014/15) | | | | | | |
| LTIP (2011/12–2014/15) | | | | | 1,530.0 | |
| LTIP (2012/13–2015/16) | | 820.0 | | | | 1,076.0 |
| LTIP (2014/15–2017/18) | | | – | 1,618.6 | | |
| LTIP (2015/16–2018/19) | – | | – | 404.7 | – | |
| Others | – | – | | | | |
| **Total** | **2,958.3** | **3,855.6** | **2,744.8** | **3,003.4** | **3,634.3** | **2,966.5** |
| Pension/service costs[5] | 648.9 | 726.0 | 365.6 | 164.1 | 401.2 | 22.3 |
| **Total remuneration** | **3,607.2** | **4,581.6** | **3,110.3** | **3,167.5** | **4,035.5** | **2,988.8** |

### REMUNERATION PAID

| € '000 | David Burling<br>Member of Executive Board,<br>since 1 June 2015<br>2014/15 | **2015/16** | Sebastian Ebel<br>Member of Executive Board,<br>since 12 December 2014<br>2014/15 | **2015/16** | Dr Elke Eller<br>Member of Executive Board/<br>Human Resources,<br>since 15 October 2015<br>2014/15 | **2015/16** |
|---|---|---|---|---|---|---|
| Fixed remuneration | 200.0 | 600.0 | 547.0 | 680.0 | | 654.2 |
| Fringe benefits | 15.3 | 42.1 | 14.3 | 18.0 | | 23.8 |
| **Total** | **215.3** | **642.1** | **561.2** | **698.0** | | **678.0** |
| JEV | 192.2 | 421.8 | 371.1 | 337.5 | | 304.4 |
| Additional Remuneration | – | 400.0 | 320.0 | 320.0 | | 300.0 |
| LTIP | | | | | | – |
| Cash deferral (FY 2012/13) | | | | | | |
| Cash deferral (FY 2013/14) | | | | | | |
| Cash deferral (FY 2014/15) | | | | | | |
| LTIP (2011/12–2014/15) | | | | | | |
| LTIP (2012/13–2015/16) | | | | | | |
| LTIP (2014/15–2017/18) | | | | | | |
| LTIP (2015/16–2018/19) | | | | | | – |
| Others | | | | | | |
| **Total** | **407.5** | **1,463.9** | **1,252.3** | **1,355.5** | | **1,282.4** |
| Pension/service costs[5] | 75.0 | 225.0 | 279.2 | 328.5 | | 405.0 |
| **Total remuneration** | **482.5** | **1,688.9** | **1,531.5** | **1,684.0** | | **1,687.4** |

**REMUNERATION PAID**

| € '000 | William Waggott[4] Member of Executive Board, 12 December 2014 until 30 June 2016 2014/15 | 2015/16 |
|---|---|---|
| Fixed remuneration | 555.0 | 540.0 |
| Fringe benefits | 28.5 | 13.5 |
| **Total** | **583.5** | **553.5** |
| JEV | 475.7 | 270.0 |
| Additional Remuneration | – | – |
| LTIP | – | 1,075.0 |
| Cash deferral (FY 2012/13) | | |
| Cash deferral (FY 2013/14) | – | |
| Cash deferral (FY 2014/15) | | |
| LTIP (2011/12–2014/15) | | |
| LTIP (2012/13–2015/16) | | |
| LTIP (2014/15–2017/18) | – | 550.0 |
| LTIP (2015/16–2018/19) | – | 525.0 |
| Others | | |
| **Total** | **1,059.2** | **1,898.5** |
| Pension/service costs[5] | 190.0 | 177.2 |
| **Total remuneration** | **1,249.2** | **2,075.7** |

1 Joint CEO until 9 February 2016; Member of the Executive Board since 15 October 2012
2 Member of the Executive Board since 3 September 2007
3 Fixed remuneration includes €63 k received for his seat on the supervisory board of Hapag Lloyd AG that is not counted towards fixed remuneration of TUI AG
4 Remuneration paid acc. to termination agreement, LTIP for financial year 2014/15 and 2015/16 (pro rated) corresponds to target amount and is part of severance payment.
5 For Mr Joussen, Mr Baier, Mr Ebel and Dr Eller service costs acc. to IAS 19; for Mr Long, Mr Burling and Mr Waggott payments for pension contribution.

The remuneration paid for the last expired financial year shows the cash payment for the performance reference period "LTIP 2012/13–2015/16" for Mr Baier and Mr Joussen, the early redemption of Mr Long's LTIP entitlements contractually agreed between Mr Long and TUI AG as well as the redemption of Mr Waggott's LTIP entitlements contained in the severance payment.

In his service contract of 30 July 2012, a contractual advance payment of €1,280.0 thousand was agreed with Mr Joussen for the performance reference period „LTIP 2012/13–2015/16" and paid. The payment was deducted from the entitlement for the entire performance reference period "LTIP 2012/13–2015/16" that actually arose upon expiry of financial year 2015/16. In this respect, only the remaining difference of €820 thousand is shown in the aforementioned table as remuneration paid.

## IX. REVIEW OF APPROPRIATENESS OF THE REMUNERATION OF EXECUTIVE BOARD MEMBERS AND OF THE PENSION

Following the end of financial year 2015/16, the Supervisory Board carried out the annual review of the remuneration of Executive Board members and the pensions for financial year 2015/16. It concluded that these are appropriate in accordance with section 87(1) German Stock Corporation Act.

The Supervisory Board also regularly makes use of external advisors when assessing the appropriateness of the remuneration of Executive Board members and of the pension. Firstly, from an outside perspective, the level and structure of the remuneration of Executive Board members is assessed in relation to the remuneration of senior management and the workforce as a whole (vertical comparison). In addition to a status quo review, the vertical comparison also takes into account how this relationship changes over time. Secondly, the remuneration level and structure are assessed on the basis of a positioning of TUI AG in a peer market made up of a combination of DAX and MDAX companies that are similar to TUI AG in terms of size and complexity of business (horizontal comparison). In addition to the fixed remuneration, the horizontal comparison also covers the short and long-term remuneration components as well as the amount of the company pension. For financial year 2015/16, the Supervisory Board commissioned a consultancy company, hkp Group AG, to prepare an expert report on the appropriateness of the remuneration level for Executive Board members. The partner of hkp Group AG commissioned by the Supervisory Board and responsible for carrying out the assessment is independent of the Executive Board of TUI AG and the company. The finding of the external advisor supported the judgment of the Supervisory Board that the level of remuneration of Executive Board members complies with section 87 (1) German Stock Corporation Act as well as the recommendations of the GCGC.

## X. REMUNERATION OF THE SUPERVISORY BOARD

On 9 February 2016 the Annual General Meeting of TUI AG passed a resolution to change the remuneration of the Supervisory Board to fixed remuneration only as well as to adjust the amount of the fixed remuneration components. The new remuneration model applies retroactively as of 1 October 2015. As a result, the variable remuneration that is granted in accordance with the provisions of the Articles of Association applicable until 9 February 20016 and based on the long-term success of the company will no longer be paid.

The aforementioned provisions and remuneration of members of the Supervisory Board follow from section 18 of TUI AG's Articles of Association, which has been made permanently accessible to the public on the internet [insert link here]. The remuneration of the Supervisory Board is reviewed at appropriate intervals. In this regard the expected time required for the performance of their duties and the practice in companies of a similar size, industry and complexity are taken into account.

⊕ *Articles of Association online www.tuigroup.com/en-en/investors/corporate-governance*

**PURPOSE AND LINK TO COMPANY STRATEGY**

Highly-qualified Supervisory Board members should be acquired and retained.

#### PROCEDURE

The members of the Supervisory Board receive fixed remuneration of €90.0 thousand per financial year, payable upon completion of the financial year, besides reimbursement of their expenses. The Chairman of the Supervisory Board receives three times, the deputy chairs twice the fixed remuneration of an ordinary member.

An additional fixed remuneration of €42.0 thousand is paid for membership in committees of the Supervisory Board (the Presiding Committee, Audit Committee, Integration Committee and the Strategy Committee, which was newly formed in financial year 2015/16, with the exception of the Nomination Committee). The chairman of the audit committee receives three times and the chairman of the strategy committee twice this remuneration. This remuneration is also paid out upon completion of the respective financial year.

In the course of the aforementioned change of the remuneration model, the members of the Supervisory Board will still be entitled to the long-term variable remuneration component granted in the past financial years 2012/13, 2013/14 and 2014/15. This is calculated according to the average undiluted earnings per share for the respective last three financial years. The entitlements from financial years 2013/14 and 2014/15 acquired prior to the change to fixed remuneration only were redeemed on the basis of planned values for the earnings per share. Since reducing the remuneration of the members of the Supervisory Board for past and current financial years is not permitted under stock corporation law, it is needs to be checked – upon completion of financial years 2015/16 and 2016/17 – whether this has taken place as a result of the change to the remuneration model. If using the average earnings per share actually achieved were to lead to higher long-term incentives than taking into account the planned values would, the corresponding difference is to be paid to the relevant members of the Supervisory Board upon the close of the Annual General Meeting that will vote on the ratification of the acts of the Supervisory Board for the respective financial year. Regarding the remuneration granted in financial year 2015/16, it will be reviewed – upon completion of financial year 2017/18 – whether applying the remuneration model valid until 9 February 2016 would have resulted in higher remuneration than applying the new model would have. If this is the case, the corresponding difference has to be paid to the members of the Supervisory Board upon the close of the Annual General Meeting 2019.

The members of the Supervisory Board do not receive any other remuneration components or fringe benefits. In all cases the remuneration relates to a full financial year. For parts of a financial year or short financial years, the remuneration is paid on a pro rata basis.

The members of the Supervisory Board and the committees receive an attendance fee of €1.0 thousand per meeting, regardless of the form of the meeting.

The members of the Supervisory Board are included in a financial liability insurance policy (D&O insurance) taken out in an appropriate amount by the company and in its interest. The relevant insurance premiums are paid by the company. In line with the recommendation of the German Corporate Governance Code, there is a deductible for which the Supervisory Board members can take out their own private insurance.

#### CAP

Due to the change to fixed remuneration only, it is no longer necessary to determine a maximum total remuneration of the members of the Supervisory Board.

## XI. REMUNERATION OF THE SUPERVISORY BOARD AS A WHOLE

#### TOTAL REMUNERATION OF SUPERVISORY BOARD

| € '000 | **2015/16** | 2014/15 |
|---|---|---|
| Fixed remuneration | 2,141.8 | 1,081.6 |
| Long-term variable remuneration[1] | 1,108.7 | 628.3 |
| Fixed remuneration for committee membership | 1,166.6 | 797.6 |
| Attendance fee | 283.0 | 306.0 |
| Remuneration for TUI AG Supervisory Board mandate | 4,700.0 | 2,813.5 |
| Remuneration for Supervisory Board mandates in the Group | 20.5 | 15.5 |
| **Total** | **4,720.6** | **2,829.0** |

[1] Due to a resolution passed in the Annual General Meeting 2016 the variable remuneration of the Supervisory Board was replaced in financial year 2015/16.

In addition, travel and other expenses totalling €461.0 thousand (previous year: €421.0 thousand) were reimbursed. Total remuneration of the Supervisory Board members thus amounted to €5,181.6 thousand (previous year: €3,250.6 thousand).

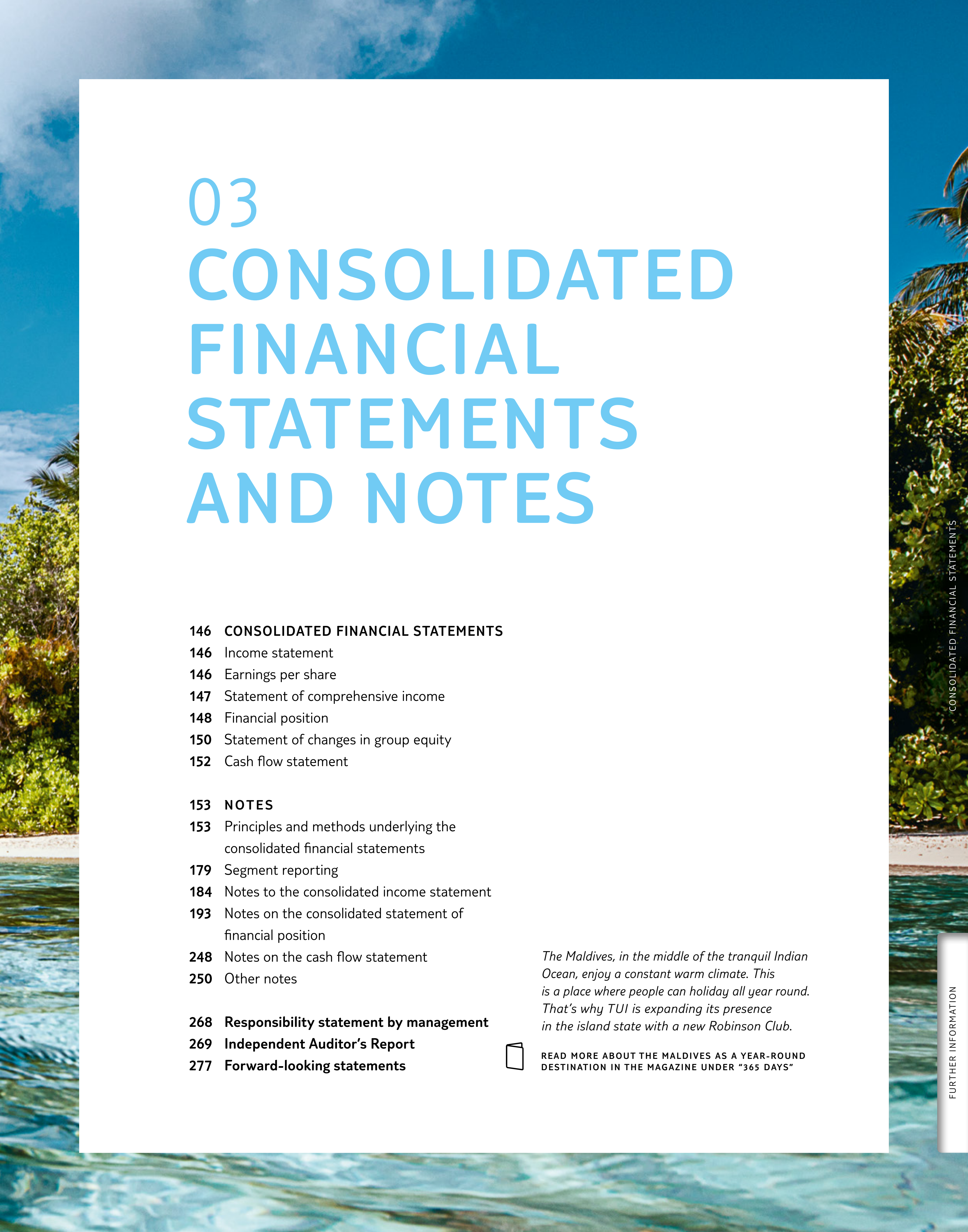
## XII. REMUNERATION OF INDIVIDUAL SUPERVISORY BOARD MEMBERS FOR THE FINANCIAL YEAR 2015/16

**REMUNERATION OF INDIVIDUAL SUPERVISORY BOARD MEMBERS FOR FINANCIAL YEAR 2015/16**

| € '000 | Fixed remuneration | Long-term variable remuneration | Fixed remuneration for committee membership | Attendance fee | Remuneration for Supervisory Board memberships in the Group | **Total** |
|---|---|---|---|---|---|---|
| Prof. Dr Klaus Mangold (Chairman) | 270.0 | 207.6 | 153.0 | 29.0 | | 659.6 |
| Frank Jakobi (Deputy Chairman) | 180.0 | 98.2 | 111.0 | 19.0 | | 408.2 |
| Sir Michael Hodgkinson (Deputy Chairman) | 180.0 | 46.9 | 84.0 | 21.0 | | 331.9 |
| Andreas Barczewski | 90.0 | 69.2 | 57.1 | 18.0 | 5.0 | 239.3 |
| Peter Bremme | 90.0 | 51.7 | 27.0 | 11.0 | | 179.7 |
| Prof. Dr Edgar Ernst | 90.0 | 69.2 | 168.0 | 17.0 | | 344.2 |
| Wolfgang Flintermann (since 13 June 2016) | 26.8 | 0.0 | 0.0 | 2.0 | | 28.8 |
| Angelika Gifford (since 9 February 2016) | 57.8 | 0.0 | 27.0 | 5.0 | | 89.8 |
| Valerie Gooding | 90.0 | 31.9 | 53.9 | 9.0 | | 184.8 |
| Dr Dierk Hirschel | 90.0 | 30.8 | 27.0 | 11.0 | | 158.8 |
| Janis Kong | 90.0 | 31.9 | 27.0 | 10.0 | | 158.9 |
| Peter Long (since 9 February 2016) | 57.8 | 0.0 | 53.9 | 6.0 | | 117.7 |
| Coline McConville | 90.0 | 31.9 | 53.9 | 13.0 | | 188.8 |
| Alexey Mordashov (since 9 February 2016) | 57.8 | 0.0 | 53.9 | 8.0 | | 119.7 |
| Michael Pönipp | 90.0 | 67.1 | 42.0 | 14.0 | 15.5 | 228.6 |
| Timothy Powell (until 9 February 2016)* | 32.3 | 0.0 | 30.1 | 7.0 | | 69.4 |
| Wilfried Rau (deceased on 30 March 2016) | 45.0 | 32.1 | 0.0 | 4.0 | | 81.1 |
| Carmen Riu Güell | 90.0 | 69.2 | 42.0 | 15.0 | | 216.2 |
| Carola Schwirn | 90.0 | 51.1 | 0.0 | 8.0 | | 149.1 |
| Maxim Shemetov (until 9 February 2016) | 32.3 | 28.0 | 15.1 | 10.0 | | 85.4 |
| Anette Strempel | 90.0 | 69.2 | 42.0 | 15.0 | | 216.2 |
| Prof. Christian Strenger (until 9 February 2016) | 32.3 | 43.2 | 30.1 | 6.0 | | 111.6 |
| Ortwin Strubelt | 90.0 | 69.2 | 69.0 | 17.0 | | 245.2 |
| Stefan Weinhofer (since 9 February 2016) | 57.8 | 0.0 | 0.0 | 5.0 | | 62.8 |
| Marcell Witt (until 9 February 2016) | 32.3 | 10.3 | 0.0 | 3.0 | | 45.6 |
| **Total** | **2,141.8** | **1,108.7** | **1,166.6** | **283.0** | **20.5** | **4,720.6** |

* Mr Powell declared to waive his long-term variable remuneration.

Apart from the work performed by the employees' representatives pursuant to their contracts, none of the members of the Supervisory Board provided any personal services such as consultation or agency services for TUI AG or its subsidiaries in financial year 2015 / 16 and thus did not receive any additional remuneration arising out of this.



# 03 CONSOLIDATED FINANCIAL STATEMENTS AND NOTES



*The Maldives, in the middle of the tranquil Indian Ocean, enjoy a constant warm climate. This is a place where people can holiday all year round. That's why TUI is expanding its presence in the island state with a new Robinson Club.*


READ MORE ABOUT THE MALDIVES AS A YEAR-ROUND DESTINATION IN THE MAGAZINE UNDER "365 DAYS"

# CONSOLIDATED FINANCIAL STATEMENTS

## INCOME STATEMENT OF THE TUI GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 30 SEP 2016

| € million | Notes | 2015/16 | 2014/15 restated |
|---|---|---|---|
| Turnover | (1) | 17,184.6 | 17,515.5 |
| Cost of sales | (2) | 15,278.1 | 15,549.5 |
| **Gross profit** | | **1,906.5** | **1,966.0** |
| Administrative expenses | (2) | 1,216.9 | 1,352.6 |
| Other income | (3) | 36.3 | 42.9 |
| Other expenses | (3) | 7.4 | 5.7 |
| Financial income | (5) | 58.5 | 35.8 |
| Financial expenses | (6) | 345.9 | 364.5 |
| Share of result of joint ventures and associates | (7) | 187.2 | 143.9 |
| **Earnings before income taxes** | | **618.3** | **465.8** |
| Income taxes | (8) | 153.4 | 58.2 |
| **Result from continuing operations** | | **464.9** | **407.6** |
| Result from discontinued operations | (9) | 687.3 | – 28.0 |
| **Group profit for the year** | | **1,152.2** | **379.6** |
| Group profit for the year attributable to shareholders of TUI AG | (10) | 1,037.4 | 340.4 |
| Group profit for the year attributable to non-controlling interest | (11) | 114.8 | 39.2 |

## EARNINGS PER SHARE

| € | Notes | 2015/16 | 2014/15 restated |
|---|---|---|---|
| **Basic earnings per share** | (12) | **1.78** | **0.64** |
| from continuing operations | | 0.61 | 0.66 |
| from discontinued operations | | 1.17 | – 0.02 |
| **Diluted earnings per share** | (12) | **1.77** | **0.63** |
| from continuing operations | | 0.60 | 0.65 |
| from discontinued operations | | 1.17 | – 0.02 |

**STATEMENT OF COMPREHENSIVE INCOME OF TUI GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 30 SEP 2016**

| € million | Notes | **2015/16** | 2014/15 |
|---|---|---|---|
| **Group profit** | | **1,152.2** | **379.6** |
| Remeasurements of pension provisions and related fund assets | | – 593.3 | 82.2 |
| Changes in the measurement of companies measured at equity | | – | 0.1 |
| Income tax related to items that will not be reclassified | (13) | 157.9 | – 24.2 |
| **Items that will not be reclassified to profit or loss** | | **– 435.4** | **58.1** |
| Foreign exchange differences | | 52.4 | – 221.7 |
| Foreign exchange differences | | 32.7 | – 220.2 |
| Reclassification / adjustments | | 19.7 | – 1.5 |
| Financial instruments available for sale | | 31.8 | – |
| Changes in the fair value | | 31.8 | 7.1 |
| Reclassification / adjustments | | – | – 7.1 |
| Cash flow hedges | | 546.1 | – 221.0 |
| Changes in the fair value | | 505.7 | 360.1 |
| Reclassification / adjustments | | 40.4 | – 581.1 |
| Changes in the measurement of companies measured at equity | | – 32.0 | 22.0 |
| Changes in the measurement outside profit or loss | | – 32.0 | 21.6 |
| Reclassification / adjustments | | – | 0.4 |
| Income tax related to items that may be reclassified | (13) | – 80.9 | 27.1 |
| **Items that may be reclassified to profit or loss** | | **517.4** | **– 393.6** |
| **Other comprehensive income** | | **82.0** | **– 335.5** |
| **Total comprehensive income** | | **1,234.2** | **44.1** |
| attributable to shareholders of TUI AG | | 1,141.8 | 9.5 |
| attributable to non-controlling interest | | 92.4 | 34.6 |
| | | | |
| **Allocation of share of shareholders of TUI AG of total comprehensive income** | | | |
| Continuing operations | | 404.2 | – 76.4 |
| Discontinued operations | | 737.6 | 85.9 |

FINANCIAL POSITION OF THE TUI GROUP AS AT 30 SEP 2016

| € million | Notes | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | (14) | 2,853.5 | 3,220.4 |
| Other intangible assets | (15) | 545.8 | 911.5 |
| Property, plant and equipment | (16) | 3,714.5 | 3,636.8 |
| Investments in joint ventures and associates | (17) | 1,180.8 | 1,077.8 |
| Financial assets available for sale | (18) | 50.4 | 56.2 |
| Trade receivables and other assets | (19) | 315.3 | 332.5 |
| Derivative financial instruments | (20) | 126.8 | 48.1 |
| Deferred tax assets | (21) | 344.7 | 330.7 |
| **Non-current assets** | | **9,131.8** | **9,614.0** |
| Inventories | (22) | 105.2 | 134.5 |
| Financial assets available for sale | (18) | 265.8 | 334.9 |
| Trade receivables and other assets | (19) | 1,320.1 | 1,948.7 |
| Derivative financial instruments | (20) | 544.6 | 281.0 |
| Income tax assets | (21) | 87.7 | 58.5 |
| Cash and cash equivalents | (23) | 2,072.9 | 1,672.7 |
| Assets held for sale | (24) | 929.8 | 42.2 |
| **Current assets** | | **5,326.1** | **4,472.5** |
| | | **14,457.9** | **14,086.5** |

**FINANCIAL POSITION OF THE TUI GROUP AS AT 30 SEP 2016**

| € million | Notes | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| Subscribed capital | (25) | 1,500.7 | 1,499.6 |
| Capital reserves | (26) | 4,192.2 | 4,187.7 |
| Revenue reserves | (27) | –3,017.8 | –3,773.9 |
| **Equity before non-controlling interest** | | **2,675.1** | **1,913.4** |
| Non-controlling interest | (30) | 573.1 | 503.9 |
| **Equity** | | **3,248.2** | **2,417.3** |
| Pension provisions and similar obligations | (31) | 1,410.3 | 1,114.5 |
| Other provisions | (32) | 803.0 | 746.3 |
| **Non-current provisions** | | **2,213.3** | **1,860.8** |
| Financial liabilities | (33) | 1,503.4 | 1,653.3 |
| Derivative financial instruments | (35) | 27.5 | 78.5 |
| Income tax liabilities | (36) | 22.2 | 115.7 |
| Deferred tax liabilities | (36) | 62.9 | 125.7 |
| Other liabilities | (37) | 160.1 | 136.2 |
| **Non-current liabilities** | | **1,776.1** | **2,109.4** |
| **Non-current provisions and liabilities** | | **3,989.4** | **3,970.2** |
| Pension provisions and similar obligations | (31) | 40.6 | 32.4 |
| Other provisions | (32) | 374.8 | 463.4 |
| **Current provisions** | | **415.4** | **495.8** |
| Financial liabilities | (33) | 537.7 | 233.1 |
| Trade payables | (34) | 2,476.9 | 3,224.2 |
| Derivative financial instruments | (35) | 249.6 | 388.2 |
| Income tax liabilities | (36) | 196.0 | 78.9 |
| Other liabilities | (37) | 2,872.4 | 3,247.3 |
| **Current liabilities** | | **6,332.6** | **7,171.7** |
| Liabilities related to assets held for sale | (38) | 472.3 | 31.5 |
| **Current provisions and liabilities** | | **7,220.3** | **7,699.0** |
| | | **14,457.9** | **14,086.5** |

## STATEMENT OF CHANGES IN GROUP EQUITY OF THE TUI GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 30 SEP 2016

| € million | Subscribed capital (25) | Capital reserves (26) | Other revenue reserves | Foreign exchange differences | Financial instruments available for sale |
|---|---|---|---|---|---|
| **Balance as at 1 Oct 2014** | **732.6** | **1,056.3** | **1,049.6** | **–741.0** | **–** |
| Dividends | – | – | –94.5 | – | – |
| Hybrid capital dividend | – | – | –10.9 | – | – |
| Share based payment schemes | – | – | 24.2 | – | – |
| Conversion of convertible bonds | 146.1 | 453.4 | – | – | – |
| Issue of employee shares | 0.3 | 1.2 | – | – | – |
| Capital increase | 620.6 | 2,676.8 | – | – | – |
| Deconsolidation | – | – | – | – | – |
| Effects on the acquisition of non-controlling interests | – | – | –3,776.3 | –260.2 | – |
| Redemption hybrid capital | – | – | –5.2 | – | – |
| **Group profit for the year** | **–** | **–** | **340.4** | **–** | **–** |
| Foreign exchange differences | – | – | –67.7 | –128.0 | – |
| Cash flow hedges | – | – | – | – | – |
| Remeasurements of pension provisions and related fund assets | – | – | 82.1 | – | – |
| Changes in the measurement of companies measured at equity | – | – | 22.1 | – | – |
| Taxes attributable to other comprehensive income | – | – | –24.2 | – | – |
| **Other comprehensive income** | **–** | **–** | **12.3** | **–128.0** | **–** |
| Total comprehensive income | – | – | 352.7 | –128.0 | – |
| **Balance as at 30 Sep 2015** | **1,499.6** | **4,187.7** | **–2,460.4** | **–1,129.2** | **–** |
| Dividends | – | – | –327.0 | – | – |
| Share based payment schemes | – | – | 4.3 | – | – |
| Issue of employee shares | 1.1 | 4.5 | – | – | – |
| Acquisition of own shares | – | – | –56.3 | – | – |
| Deconsolidation | – | – | – | – | – |
| Effects on the acquisition of non-controlling interests | – | – | –6.9 | – | – |
| **Group profit for the year** | **–** | **–** | **1,037.4** | **–** | **–** |
| Foreign exchange differences | – | – | 61.0 | 34.0 | – |
| Financial Instruments available for sale | – | – | – | – | 31.8 |
| Cash flow hedges | – | – | – | – | – |
| Remeasurements of pension provisions and related fund assets | – | – | –593.3 | – | – |
| Changes in the measurement of companies measured at equity | – | – | –32.0 | – | – |
| Taxes attributable to other comprehensive income | – | – | 157.9 | – | – |
| **Other comprehensive income** | **–** | **–** | **–406.4** | **34.0** | **31.8** |
| Total comprehensive income | – | – | 631.0 | 34.0 | 31.8 |
| **Balance as at 30 Sep 2016** | **1,500.7** | **4,192.2** | **–2,215.3** | **–1,095.2** | **31.8** |

| Cash flow hedges | Revaluation reserve | Revenue reserves (27) | Hybrid capital (29) | Equity before non-controlling interest | Non-controlling interest (30) | Total |
|---|---|---|---|---|---|---|
| **7.0** | **20.5** | **336.1** | **294.8** | **2,419.8** | **110.4** | **2,530.2** |
| – | – | –94.5 | – | –94.5 | –197.1 | –291.6 |
| – | – | –10.9 | – | –10.9 | – | –10.9 |
| – | – | 24.2 | – | 24.2 | 1.9 | 26.1 |
| – | – | – | – | 599.5 | – | 599.5 |
| – | – | – | – | 1.5 | – | 1.5 |
| – | – | – | – | 3,297.4 | – | 3,297.4 |
| – | – | – | – | – | –9.5 | –9.5 |
| 3.2 | 0.2 | –4,033.1 | – | –4,033.1 | 563.6 | –3,469.5 |
| – | – | –5.2 | –294.8 | –300.0 | – | –300.0 |
| **–** | **–** | **340.4** | **–** | **340.4** | **39.2** | **379.6** |
| –12.8 | –0.9 | –209.4 | – | –209.4 | –12.3 | –221.7 |
| –231.0 | – | –231.0 | – | –231.0 | 10.0 | –221.0 |
| – | – | 82.1 | – | 82.1 | 0.1 | 82.2 |
| – | – | 22.1 | – | 22.1 | – | 22.1 |
| 29.5 | – | 5.3 | – | 5.3 | –2.4 | 2.9 |
| **–214.3** | **–0.9** | **–330.9** | **–** | **–330.9** | **–4.6** | **–335.5** |
| –214.3 | –0.9 | 9.5 | – | 9.5 | 34.6 | 44.1 |
| **–204.1** | **19.8** | **–3,773.9** | **–** | **1,913.4** | **503.9** | **2,417.3** |
| – | – | –327.0 | – | –327.0 | –13.6 | –340.6 |
| – | – | 4.3 | – | 4.3 | – | 4.3 |
| – | – | – | – | 5.6 | – | 5.6 |
| – | – | –56.3 | – | –56.3 | – | –56.3 |
| – | 0.2 | 0.2 | – | 0.2 | –10.0 | –9.8 |
| – | – | –6.9 | – | –6.9 | 0.4 | –6.5 |
| **–** | **–** | **1,037.4** | **–** | **1,037.4** | **114.8** | **1,152.2** |
| –19.4 | –0.6 | 75.0 | – | 75.0 | –22.6 | 52.4 |
| – | – | 31.8 | – | 31.8 | – | 31.8 |
| 545.8 | – | 545.8 | – | 545.8 | 0.3 | 546.1 |
| – | – | –593.3 | – | –593.3 | – | –593.3 |
| – | – | –32.0 | – | –32.0 | – | –32.0 |
| –80.8 | – | 77.1 | – | 77.1 | –0.1 | 77.0 |
| **445.6** | **–0.6** | **104.4** | **–** | **104.4** | **–22.4** | **82.0** |
| 445.6 | –0.6 | 1,141.8 | – | 1,141.8 | 92.4 | 1,234.2 |
| **241.5** | **19.4** | **–3,017.8** | **–** | **2,675.1** | **573.1** | **3,248.2** |

## CASH FLOW STATEMENT

| € million | Notes | **2015/16** | 2014/15 | Var. |
|---|---|---|---|---|
| Group profit | | 1,152.2 | 379.6 | +772.6 |
| Depreciation, amortisation and impairments (+)/write-backs (–) | | 578.5 | 700.5 | –122.0 |
| Other non-cash expenses (+)/income (–) | | –164.6 | –118.7 | –45.9 |
| Interest expenses | | 202.3 | 207.7 | –5.4 |
| Dividends from joint ventures and associates | | 82.2 | 81.3 | +0.9 |
| Profit (–)/loss (+) from disposals of non-current assets | | –802.5 | –23.3 | –779.2 |
| Increase (–)/decrease (+) in inventories | | –9.5 | –6.1 | –3.4 |
| Increase (–)/decrease (+) in receivables and other assets | | 324.7 | –233.6 | +558.3 |
| Increase (+)/decrease (–) in provisions | | –234.2 | –85.3 | –148.9 |
| Increase (+)/decrease (–) in liabilities (excl. financial liabilities) | | –94.4 | –111.6 | +17.2 |
| **Cash inflow from operating activities** | (45) | **1,034.7** | **790.5** | **+244.2** |
| Payments received from disposals of property, plant and equipment, investment property and intangible assets | | 115.3 | 341.6 | –226.3 |
| Payments from disposals of consolidated companies (excl. disposals of cash and cash equivalents due to divestments) | | 876.7 | –27.6 | +904.3 |
| Payments received from the disposals of other non-current assets | | 12.1 | 325.5 | –313.4 |
| Payments made for investments in property, plant and equipment, investment property and intangible assets | | –697.4 | –826.4 | +129.0 |
| Payments made for investments in consolidated companies (excl. cash and cash equivalents received due to acquisitions) | | –10.5 | –5.1 | –5.4 |
| Payments made for investments in other non-current assets | | –57.2 | –24.8 | –32.4 |
| **Cash inflow/outflow from investing activities** | (46) | **239.0** | **–216.8** | **455.8** |
| Payments made for capital increases | | –54.2 | –9.8 | –44.4 |
| Payments made for interest increase in consolidated companies | | –8.0 | –128.2 | +120.2 |
| Dividend payments | | | | |
| TUI AG | | –327.0 | –109.3 | –217.7 |
| subsidiaries to non-controlling interest | | –14.1 | –197.0 | +182.9 |
| Payments received from the issue of bonds and the raising of financial liabilities | | 108.8 | 79.3 | +29.5 |
| Payments made for redemption of hybrid capital | | – | –300.0 | +300.0 |
| Payments made for redemption of loans and financial liabilities | | –275.3 | –359.7 | +84.4 |
| Interest paid | | –92.3 | –92.0 | –0.3 |
| **Cash outflow from financing activities** | (47) | **–662.1** | **–1,116.7** | **+454.6** |
| **Net change in cash and cash equivalents** | | **611.6** | **–543.0** | **+1,154.6** |
| | | | | |
| **Development of cash and cash equivalents** | (48) | | | |
| **Cash and cash equivalents at beginning of period** | | **1,682.2** | **2,258.0** | **–575.8** |
| Change in cash and cash equivalents due to exchange rate fluctuations | | 105.8 | –33.1 | +138.9 |
| Change in cash and cash equivalents due to changes in the group of consolidated companies | | 4.0 | 0.3 | +3.7 |
| Change in cash and cash equivalents with cash effects | | 611.6 | –543.0 | +1,154.6 |
| **Cash and cash equivalents at end of period** | | **2,403.6** | **1,682.2** | **+721.4** |
| of which included in the balance sheet as assets held for sale | | **330.7** | 9.5 | +321.2 |

# NOTES

## Principles and methods underlying the consolidated financial statements

### General

The TUI Group with its major subsidiaries and shareholdings operates in tourism.

TUI AG, based in Karl-Wiechert-Allee 4, Hanover is the TUI Group's parent company and a listed corporation under German law. The Company is registered in the commercial registers of the district courts of Berlin-Charlottenburg (HRB 321) and Hanover (HRB 6580). The shares in the company are traded on the London Stock Exchange and the Hanover and Frankfurt Stock Exchanges.

These consolidated financial statements of TUI AG were prepared for the business year from 1 October 2015 to 30 September 2016. Where any of TUI's subsidiaries have different financial years, financial statements were prepared as at 30 September in order to include these subsidiaries in TUI AG's consolidated financial statements.

The Executive Board and the Supervisory Board have submitted a Declaration of Compliance with the German Corporate Governance Code required pursuant to section 161 of the German Stock Corporation Act (AktG) and made it permanently available to the general public on the Company's website (www.tuigroup.com).

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

The consolidated financial statements were approved for publication by TUI AG's Executive Board on 6 December 2016.

### Accounting principles

#### DECLARATION OF COMPLIANCE

Pursuant to Regulation EEC No. 1606 / 2002 of the European Parliament and Council, TUI AG's consolidated financial statements as at 30 September 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. Moreover, the commercial-law provisions listed in section 315a (1) of the German Commercial Code (HGB) and the Disclosure and Transparency Rules of the UK Financial Conduct Authority were also observed in preparing the consolidated financial statements.

The accounting and measurement methods and the explanatory information and Notes to these annual financial statements for financial year 2015 / 16 are consistent in every respect with those followed in preparing the previous consolidated financial statements for financial year 2014 / 15.

### GOING CONCERN REPORTING ACCORDING TO THE UK CORPORATE GOVERNANCE CODE

The Executive Board remains satisfied with the Group's funding and liquidity position. At 30 September 2016 the main sources of debt funding included:

- An external revolving credit facility of € 1,535.0 m maturing in December 2020, used to manage the seasonality of the Group's cash flows and liquidity,
- a bond 2014 / 19 with a nominal value of € 300.0 m, issued by TUI AG and originally maturing in October 2019,
- € 1,231.7 m of drawn finance lease obligations and
- Bank liabilities of € 410.8 m, being mainly loans used to acquire property, plant and equipment.

The revolving credit facility requires compliance with certain financial covenants and these covenants were all complied with at the balance sheet date.

The bond 2014 / 19 with a nominal value of € 300.0 m was called on 19 October 2016 and redeemed in full on 18 November 2016. New senior notes with the same nominal amount were successfully issued on 26 October 2016 with a more favourable interest coupon. The notes will mature on 26 October 2021.

In accordance with provision C1.3 of the 2016 revision of the UK Corporate Governance Code, the Executive Board confirms that it is considered appropriate to prepare the financial statements on the going concern basis.

## Restatement of prior reporting period

The following restatements were made for financial year 2014 / 15:

### RESTATEMENT CAUSED BY DISCONTINUED OPERATIONS

Due to the planned sale of the Hotelbeds Group segment in financial year 2015 / 16, the segment was reported as a discontinued operation in Q2 2015 / 16 in line with IFRS 5. The Hotelbeds Group was sold on 12 September 2016.

Additionally, the Specialist Group segment is reported as a discontinued operation as at 30 September 2016, due to its planned sale in the course of financial year 2016 / 17.

In the consolidated income statement for financial year 2015 / 16, the result generated by the Hotelbeds Group until its sale as well as the result of the Specialist Group is shown separately as result from discontinued operations. The prior year consolidated income statement was restated as follows. For further explanations please refer to the section "Acquisitions – Divestments – Discontinued operations".

**RESTATED ITEMS OF THE INCOME STATEMENT OF THE TUI GROUP FOR THE PERIOD FROM 1 OCT 2014 TO 30 SEP 2015**

| € million | Before restatement | Restatement Specialist Group | Restatement Hotelbeds Group | Restated |
|---|---|---|---|---|
| Turnover | 20,011.6 | –1,502.1 | –994.0 | 17,515.5 |
| Cost of sales | 17,616.3 | –1,305.4 | –761.4 | 15,549.5 |
| **Gross profit** | **2,395.3** | **–196.7** | **–232.6** | **1,966.0** |
| Administrative expenses | 1,715.4 | –170.2 | –192.6 | 1,352.6 |
| Other income | 51.2 | –8.3 | – | 42.9 |
| Other expenses | 8.0 | –2.1 | –0.2 | 5.7 |
| Financial income | 37.9 | –1.0 | –1.1 | 35.8 |
| Financial expenses | 370.1 | –2.1 | –3.5 | 364.5 |
| Share of result of joint ventures and associates | 144.5 | – | –0.6 | 143.9 |
| **Earnings before income taxes from continuing operations** | **535.4** | **–31.6** | **–38.0** | **465.8** |
| Income taxes | 87.0 | –17.6 | –11.2 | 58.2 |
| **Result from continuing operations** | **448.4** | **–14.0** | **–26.8** | **407.6** |
| Result from discontinued operations | –68.8 | 14.0 | 26.8 | –28.0 |
| **Group profit for the year** | **379.6** | **0.0** | **–** | **379.6** |

## Principles and methods of consolidation

### PRINCIPLES

The consolidated financial statements include all significant subsidiaries directly or indirectly controlled by TUI AG. Control exists where TUI AG has power over the relevant activities, is exposed to variable returns or has rights to the returns, and has the ability to affect those variable returns through its power over the investee.

As a rule, the control is exercised by means of a direct or indirect majority of voting rights. If the TUI Group holds less than the majority of voting rights in a shareholding, it may exercise control due to contractual agreements or similar arrangements.

In assessing control, the existence and effect of potential voting rights that are currently exercisable or convertible are taken into account. Consolidation of subsidiaries starts from the date TUI gains control. When TUI ceases to control the corresponding companies, they are removed from the group of consolidated companies.

The consolidated financial statements are prepared from the separate or single-entity financial statements of TUI AG and its subsidiaries, drawn up on the basis of uniform accounting, measurement and consolidation methods and usually exclusively audited or reviewed by auditors.

Associates for which the TUI Group is able to exert significant influence over the financial and operating policy decisions within these companies are accounted for using the equity method. As a rule, significant influence is assumed if TUI AG directly or indirectly holds voting rights of 20 to less than 50 per cent.

Stakes in joint ventures are also measured using the equity method. A joint venture is a company managed jointly by the TUI Group with one or several partners based on a contractual agreement, in which the parties that jointly exercise control have rights to the company's net assets. Joint ventures also include companies in which the TUI Group holds a majority or minority of voting rights but in which decisions about the relevant activities may only be taken on an unanimous basis due to contractual agreements.

The dates as of which associates and joint ventures are included in or removed from the group of companies measured at equity are determined in a manner consistent with that applied to subsidiaries. At equity measurement in each case is based on the last annual financial statements available or the interim financial statements as at 30 September if the balance sheet dates differ from TUI AG's balance sheet date. This affects 28 companies with a financial year from 1 January to 31 December and two companies with a financial year from 1 April to 31 March of the following year.

## GROUP OF CONSOLIDATED COMPANIES

In financial year 2015 / 16, the consolidated financial statements included a total of 417 subsidiaries besides TUI AG.

62 subsidiaries were not included in the consolidated financial statements. Even when taken together, these companies are not significant for the presentation of a true and fair view of the net assets, financial position and results of operations of the Group.

### DEVELOPMENT OF THE GROUP OF CONSOLIDATED COMPANIES* AND THE GROUP COMPANIES MEASURED AT EQUITY

| | Balance 30 Sep 2015 | Additions | Disposals | **Balance 30 Sep 2016** |
|---|---|---|---|---|
| Consolidated subsidiaries | 532 | 19 | 134 | 417 |
| Associates | 19 | 4 | 10 | 13 |
| Joint ventures | 33 | – | 6 | 27 |

* excl. TUI AG

A total of 19 companies have been newly included as consolidated subsidiaries since 1 October 2015, with 12 companies newly established, three companies added due to the purchase of additional stakes and four companies included in consolidation due to an expansion of their business operations.

Since 1 October 2015, a total of 134 companies have been removed from consolidation. 97 of the companies were removed from consolidation due to divestment, 21 companies due to liquidation, and ten companies due to mergers. In addition, three companies were removed from consolidation due to sales of stakes and the associated loss of control. Moreover, two companies were removed from consolidation due to the discontinuation of their business operations, and one company due to a loss of control. The divestments include 91 companies of the Hotelbeds Group. For more detailed information about the sale of the Hotelbeds Group, please refer to the section "Acquisitions – Divestments – Discontinued operations".

13 associated companies and 27 joint ventures are measured at equity as at the balance sheet date. The number of companies measured at equity has declined by ten since 1 October 2015, with five disposals, one merger and two companies transferred to the Sunwing Group. Moreover, one company is now consolidated due to the acquisition of further stakes, and one company is no longer measured at equity due to a loss of joint control. Parallel to these removals, four associated companies were added in the current financial year due to further acquisitions of stakes, and in one case a newly established operation, so that the number of associated companies declined by six overall in financial year 2015 / 16. The number of joint ventures measured at equity has declined by a total of six since 1 October 2015 due to the merger of five companies and the divestment of one company.

The major direct and indirect subsidiaries, associates and joint ventures of TUI AG are listed under "Other Notes – TUI Group Shareholdings".

The effects of the changes in the group of consolidated companies in financial year 2015 / 16 on financial years 2015 / 16 and 2014 / 15 are outlined below. While the value of companies deconsolidated in financial year 2015 / 16 posted in the statement of financial position is carried as per the closing date for the previous period, items in the income statement are also shown for a part year period of financial year 2015 / 16. Items which are already presented in the result from discontinued operations, the assets held for sale or liabilities related to assets held for sale are not inculded in the tables below but in the section "Discontinued operations".

**IMPACT OF CHANGES IN THE GROUP OF CONSOLIDATED COMPANIES ON THE STATEMENT OF FINANCIAL POSITION**

| € million | Additions<br>**30 Sep 2016** | Disposals<br>30 Sep 2015 |
|---|---|---|
| Non-current assets | 23.5 | 430.9 |
| Current assets | 13.4 | 812.2 |
| Non-current financial liabilities | – | 0.2 |
| Current financial liabilities | – | 7.3 |
| Non-current other liabilities | – | 54.9 |
| Current other liabilities | 10.2 | 774.6 |

**IMPACT OF CHANGES IN THE GROUP OF CONSOLIDATED COMPANIES ON THE CONSOLIDATED INCOME STATEMENT**

| € million | Additions<br>**2015 / 16** | Disposals<br>**2015 / 16** | <br>2014 / 15 |
|---|---|---|---|
| Turnover with third parties | 32.4 | 0.2 | 3.0 |
| Turnover with consolidated Group companies | 19.6 | 0.1 | 0.7 |
| Cost of sales and administrative expenses | 50.7 | 0.4 | 6.1 |
| Other income / other expenses | – | 0.6 | – |
| Share of result of joint ventures and associates | – | 0.1 | 0.8 |
| Financial expenses (+) / income (-) | – 0.8 | – | 0.4 |
| **Earnings before income taxes** | **2.1** | **0.6** | **– 2.0** |
| Income taxes | 0.3 | 1.7 | – 1.7 |
| **Group profit for the year** | **1.8** | **– 1.1** | **– 0.3** |

## Acquisitions – divestments – discontinued operations

### ACQUISITIONS

In financial year 2015 / 16, 18 travel agencies were acquired in the form of asset deals. Moreover, further interests were acquired in the Aelos Group, previously measured at equity. Following these acquisitions, the TUI Group now holds 100 % of the shares in each of these companies. The consideration for these acquisitions consisted of payments totalling € 7.9 m.

The acquisitions did not have a material effect on turnover or the Group result for the reporting period.

The purchase price allocations of the following companies and businesses acquired in financial year 2014/15 were finalised within the twelve-month period provided under IFRS 3 in the present annual financial statements without having a major impact on the consolidated statement of financial position:

- 11 travel agencies in Germany
- aQi Hotel Schladming GmbH
- aQi Hotel Management GmbH

### ACQUISITIONS AFTER THE BALANCE SHEET DATE

On 31 October 2016 TUI AG acquired 99.99% of the shares in Transat France S.A., Ivry-sur-Seine, France. The aim of that acquisition is to increase the market presence in France. This acquisition also included the purchase of the majority stake in Transat Développement SAS, Ivry-sur-Seine, France and Tourgreece Tourism Enterprise A.E., Athen, Greece.

The consideration transferred consisted of payments totalling € 64.9 m subject to contractual purchase price amendments.

The table below provides an overview of the fair values of the Transat Group as at the date of first-time consolidation:

STATEMENTS OF FINANCIAL POSITION OF THE TRANSAT GROUP AS AT THE DATE OF FIRST-TIME CONSOLIDATION

| € million | Fair value at date of first-time consolidation |
|---|---|
| Other intangible assets | 11.9 |
| Property, plant and equipment | 21.2 |
| Investments | 7.0 |
| **Fixed assets** | **40.1** |
| Trade receivables | 146.8 |
| Other assets (including prepaid expenses) | 31.6 |
| Cash and cash equivalents | 13.9 |
| Liabilities and deferred income | 211.9 |
| **Net assets** | **20.5** |

At the reporting date, accounting for the business combination, in particular fair value measurement of assets and liabilities, was not yet completed. The preliminary goodwill out of this acquisition is € 44.4 m.

## DIVESTMENTS

The disposal of LateRooms Ltd. and the Hotelbeds Group is explained in the „Discontinued Operations" section. The effects of the other divestments on the TUI Group's net assets, financial position and results of operations were immaterial.

## DISCONTINUED OPERATIONS

### SPECIALIST GROUP

TUI AG has decided to exit the Specialist Group as it is not closely aligned with TUI Group's remaining business and thus offers very little potential for integration into the Group's operation. Specialist Group consists of two segments. The tour operators combined under the Travelopia brand offer expedition travel, luxury tours, sporting events, student travels and sailing trips. Travelopia is expected to be sold within the forthcoming financial year. Specialist tour operators of Specialist Group not managed under Travelopia comprise adventure tours and language schools already sold by the end of the financial year under review.

The result from this discontinued operation is reported separately from the income and expenses of continuing operations in the consolidated income statement, shown in a separate line as “Result from discontinued operations” together with the profit contributions of the other discontinued operations. The consolidated income statement of the prior year was restated accordingly.

**INCOME STATEMENT OF THE DISCONTINUED OPERATION SPECIALIST GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 30 SEP 2016**

| € million | **2015/16** | 2014/15 |
|---|---|---|
| Turnover | 1,371.4 | 1,502.1 |
| Cost of sales | 1,217.1 | 1,305.4 |
| **Gross profit** | **154.3** | **196.7** |
| Administrative expenses | 177.0 | 170.2 |
| Other income | 7.0 | 8.3 |
| Other expenses | 20.7 | 2.1 |
| Financial income | 0.6 | 1.0 |
| Financial expenses | 1.1 | 2.1 |
| **Earnings before income taxes from the discontinued operation** | **– 36.9** | **31.6** |
| Income taxes | – 2.7 | 17.6 |
| **Result from the discontinued operation Specialist Group** | **– 34.2** | **14.0** |
| Result from the discontinued operation Specialist Group attributable to shareholders of TUI AG | – 34.1 | 28.2 |
| Result from the discontinued operation Specialist Group attributable to non-controlling interest | – 0.1 | –14.2 |

The income statement for the discontinued operation Specialist Group reflects the sale of specialist tour operators not forming part of Travelopia, which has already been effected. This has in particular driven the decline in turnover and cost of sales. Moreover, administrative expenses and other expenses for the establishment of an independent organisation and for the preparation for the sale of Travelopia were incurred in the current financial year.

In the prior year, the result from discontinued operations attributable to non-controlling shareholders also comprised shares in the result attributable to TUI Travel PLC’s non-controlling shareholders until December 2014.

The assets and liabilities are shown separately in the consolidated statement of financial position under “Assets held for sale” and “Liabilities related to assets held for sale”. The table below presents the key asset and liability groups of the discontinued operation Specialist Group.

## ASSETS AND LIABILITIES OF THE DISCONTINUED OPERATION SPECIALIST GROUP AS AT 30 SEP 2016

| € million | 30 Sep 2016 |
|---|---|
| **Assets** | |
| Goodwill | 53.1 |
| Other intangible assets | 132.1 |
| Property, plant and equipment | 220.9 |
| Trade receivables from third parties and other assets | 0.8 |
| Trade receivables from continuing operations | 3.1 |
| Derivative financial instruments | 0.5 |
| Deferred tax assets | 7.6 |
| **Non-current assets** | **418.1** |
| Inventories | 37.6 |
| Trade receivables from third parties and other assets | 121.2 |
| Trade receivables from continuing operations | 80.6 |
| Derivative financial instruments | 6.8 |
| Current tax assets | 17.6 |
| Cash and cash equivalents | 330.7 |
| **Current assets** | **594.5** |
| | **1,012.6** |

| € million | |
|---|---|
| **Equity and liabilities** | |
| Revenue reserves | 302.7 |
| **Equity before non-controlling interest** | **302.7** |
| Non-controlling interest | –1.8 |
| **Equity** | **300.9** |
| Other provisions | 14.7 |
| **Non-current provisions** | **14.7** |
| Financial liabilities against third parties | 6.0 |
| Financial liabilities against continuing operations | 236.1 |
| Derivative financial instruments | 0.1 |
| Deferred tax liabilities | 33.5 |
| Other liabilities | 1.2 |
| **Non-current liabilities** | **276.9** |
| **Non-current provisions and liabilities** | **291.6** |
| Other provisions | 1.9 |
| **Current provisions** | **1.9** |
| Financial liabilities against third parties | 6.7 |
| Trade payables to third-parties | 93.9 |
| Trade payables to continuing operations | 3.3 |
| Derivative financial instruments | 0.7 |
| Current tax liabilities | 17.7 |
| Other liabilities | 295.9 |
| **Current liabilities** | **418.2** |
| **Current provisions and liabilities** | **420.1** |
| | **1,012.6** |

Receivables from and payables to the Group's continuing operations are eliminated in the consolidated statement of financial position and are therefore not included in the items "Assets held for sale" and "Liabilities related to assets held for sale".

**RECONCILIATION TO ASSETS HELD FOR SALE IN THE FINANCIAL POSITION OF THE TUI AG AS AT 30 SEP 2016**

| € million | **30 Sep 2016** |
|---|---|
| Current and non-current assets of the Specialist Group | 1,012.6 |
| Elimination of receivables from continuing operations | – 83.7 |
| **Assets held for sale of the Specialist Group** | **928.9** |

**RECONCILIATION TO LIABILITIES RELATED TO ASSETS HELD FOR SALE IN THE FINANCIAL POSITION OF THE TUI AG AS AT 30 SEP 2016**

| € million | **30 Sep 2016** |
|---|---|
| Current and non-current liabilities of the Specialist Group | 711.7 |
| Elimination of liabilities against continuing operations | – 239.4 |
| **Liabilities related to assets held for sale** | **472.3** |

The consolidated cash flow statement shows the cash flows of the overall Group including the discontinued operations. The table below provides a separate presentation of the cash flows of the discontinued operation Specialist Group. Cash flows from intercompany relationships, in particular financing schemes, dividends, business transfers and sales of companies, are not taken into account. In the financial year under review, the cash outflow from investing activities includes an inflow of € 29.1 m reflecting a part of the purchase price for Hotelbeds Group and an amount of € 80.4 m for tax payments directly associated with the sale.

**CONDENSED CASH FLOW STATEMENT OF THE DISCONTINUED OPERATION SPECIALIST GROUP**

| € million | **2015 / 16** | 2014 / 15 |
|---|---|---|
| Cash inflow from operating activities | 42.1 | 53.1 |
| Cash outflow from investing activities | – 80.6 | – 47.3 |
| Cash outflow from financing activities | – 3.9 | – 3.1 |

**HOTELBEDS GROUP**

In the second quarter of the completed financial year, TUI AG had decided to exit its Hotelbeds Group segment. Hotelbeds Group comprises B2B portals to sell hotel bed capacity and destination services to wholesale customers such as travel agencies and tour operators worldwide. This segment also comprises incoming agencies whose services are not directly aligned with TUI Group's tour operators and services for the cruise industry.

The sale of Hotelbeds Group to GNVA Acquisitions Ltd was completed on 12 September 2016. GNVA Acquisitions Ltd is a company owned by the fund managed and advised by Cinven Capital Management and Canada Pension Plan Investment Board. The result from the sale is calculated as follows:

RESULT FROM THE SALE OF THE HOTELBEDS GROUP

| € million | 2015/16 |
|---|---|
| Cash received | 1,233.1 |
| Fair Value of investment retained | 0.9 |
| **Total Consideration** | **1,234.0** |
| | |
| Carrying amount of net assets sold | – 355.4 |
| Carrying amount of non-controlling interest | 10.0 |
| Reclassification of fx differences | –18.4 |
| Reclassifications of hedging reserves | 1.4 |
| Costs of disposal, additional charges and guarantees | – 95.8 |
| **Profit on sale before income taxes** | **775.8** |
| Income taxes on disposal | 94.9 |
| **Profit on sale after tax** | **680.9** |

The profit on sale includes contractual guarantees disclosed as other liabilities.

TUI Group continues to hold an indirect stake in an incoming agency of Hotelbeds Group after the sale. The agency is now included in TUI AG's consolidated financial statements as a joint venture. Fair value measurement of the remaining stake resulted in a profit of € 0.5 m. Taxes on the gain on disposal only reflect taxes directly associated with the sale. These taxes have already been paid.

The result from this discontinued operation Hotelbeds Group generated until the date of disposal is carried separately from the income from and expenses for continuing operations in the consolidated income statement. It is shown in a separate line as "Result from discontinued operations" together with the profit contributions of other discontinued operations. The consolidated income statement for the prior year was restated accordingly.

INCOME STATEMENT OF THE DISCONTINUED OPERATION HOTELBEDS GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 12 SEP 2016

| € million | 2015/16 | 2014/15 |
|---|---|---|
| Turnover | 950.2 | 994.0 |
| Cost of sales | 735.4 | 761.4 |
| **Gross profit** | **214.8** | **232.6** |
| Administrative expenses | 156.9 | 192.6 |
| Other income | 0.4 | – |
| Other expenses | 4.9 | 0.2 |
| Financial income | 0.1 | 1.1 |
| Financial expenses | 1.7 | 3.5 |
| Share of result of joint ventures and associates | 0.3 | 0.6 |
| **Earnings before income taxes from the discontinued operation** | **52.1** | **38.0** |
| Income taxes | 10.7 | 11.2 |
| **Operating result from the discontinued operation** | **41.4** | **26.8** |
| Result from the disposal of the discontinued operation before income taxes | 775.8 | – |
| Income taxes on the profit on disposal | 94.9 | – |
| **Result from the disposal of the discontinued operation Hotelbeds Group** | **680.9** | **–** |
| **Result from the discontinued operation Hotelbeds Group** | **722.3** | **26.8** |
| Result from discontinued operation Hotelbeds Group attributable to shareholders of TUI AG | 718.9 | 28.1 |
| Result from discontinued operation Hotelbeds Group attributable to non-controlling interest | 3.4 | –1.3 |

The turnover with the continuing operations of € 108.9 m in financial year 2015 / 16 (previous year € 64.8 m) was eliminated against the cost of sales of the Hotelbeds Group.

The decline in turnover and cost of sales is driven by the sale of Hotelbeds Group as at 12 September 2016 as therefore the income statement does not reflect the total year. Adjusted for that effect, the hotel bed portals, in particular, posted an increase in turnover. Administrative expenses and other expenses rose due to the costs incurred in connection with the establishment of a separate organisation for Hotelbeds Group. This increase in costs was offset by the sale prior to the close of the financial year.

In the prior year, the result from discontinued operation attributable to non-controlling shareholders also comprised the share of results attributable to the non-controlling shareholders of TUI Travel PLC until the end of December 2014.

The Group's consolidated Cash Flow Statement presents the cash flows for the overall Group including the discontinued operations. A separate presentation of the cash flows for the discontinued operation Hotelbeds Group is provided in the following table. Cash flows from intercompany financing schemes and intercompany dividends, business transfers and company sales are not taken into account. The cash flows from operating activities are negative, as the second half of the month of September is not included in the cash flow statement for the financial year. As the cash flows associated with the sale of Hotelbeds Group are shown in TUI Group's segments in which they have been incurred, the cash outflows from investing activities only comprise the amount of the cash and cash equivalents transferred on the sale of the Hotelbeds Group but do not include the selling prices paid.

**CONDENSED CASH FLOW STATEMENT OF THE DISCONTINUED OPERATION HOTELBEDS GROUP**

| € million | **2015 / 16** | 2014 / 15 |
|---|---|---|
| Cash outflow / inflow from operating activities | – 24.5 | 8.5 |
| Cash outflow from investing activities | – 289.4 | – 31.9 |
| Cash inflow / outflow from financing activities | 10.4 | – 6.0 |

### LATEROOMS GROUP

In the previous year, TUI AG had decided to exit its LateRooms Group segment. While AsiaRooms and Malapronta were discontinued in the prior year, LateRooms Ltd. was sold on 6 October 2015.

The result of this discontinued operation is carried separately from the income from and expenses for continuing operations in the consolidated income statement. It is shown in a separate line as "Result from discontinued operations" together with the profit contributions of the other discontinued operations. As the LateRooms Group was already classified as discontinued operation in the prior year, there is no restatement of the prior year income statement for the LateRooms Group.

**INCOME STATEMENT OF THE DISCONTINUED OPERATION LATEROOMS GROUP FOR THE PERIOD FROM 1 OCT 2015 TO 30 SEP 2016**

| € million | 2015/16 | 2014/15 |
|---|---|---|
| Turnover | – | 69.7 |
| Cost of sales | – | 51.4 |
| **Gross profit** | **–** | **18.3** |
| Administrative expenses | – | 43.2 |
| Other income | 0.1 | – |
| Other expenses | – | 7.3 |
| Financial expenses | – | 0.7 |
| **Earnings before income taxes from the discontinued operation** | **0.1** | **– 32.9** |
| Income taxes | – 1.3 | – 0.1 |
| **Result from the discontinued operation** | **1.4** | **– 32.8** |
| Result from the disposal / measurement of the discontinued operation | – 2.2 | – 36.0 |
| **Result from the discontinued operation LateRooms Group** | **– 0.8** | **– 68.8** |
| Result from the discontinued operation LateRooms Group attributable to shareholders of TUI AG | – 0.8 | – 67.0 |
| Result from the discontinued operation LateRooms Group attributable to non-controlling interest | – | – 1.8 |

The loss on disposal of the LateRooms Group comprises the cumulative foreign exchange translation differences that were reclassified to profit and loss upon removal from equity, and the ancillary divestment costs.

The Group's Cash Flow Statement presents the cash flows for the overall Group including the discontinued operations. A separate presentation of the cash flows for the discontinued operation LateRooms Group is provided in the following table. Cash flows from intra-Group financing schemes and intra-Group dividends and business disposals are not taken into account.

**CONDENSED CASH FLOW STATEMENT OF THE DISCONTINUED OPERATION LATEROOMS GROUP**

| € million | 2015/16 | 2014/15 |
|---|---|---|
| Cash outflow from operating activities | – | – 13.6 |
| Cash outflow from investing activities | – | – 8.3 |
| Cash inflow from financing activities | – | 16.3 |

## FOREIGN EXCHANGE TRANSLATION

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rates at the date of the transaction. Any gains and losses resulting from the execution of such transactions and the translation of monetary assets and liabilities denominated in foreign currencies at the foreign exchange rate at the date of the transaction are shown in the income statement, with the exception of gains and losses to be recognised in equity as qualifying cash flow hedges.

The annual financial statements of companies are prepared in the respective functional currency. The functional currency of a company is the currency of the primary economic environment in which the company operates. With the exception of a small number of companies, the functional currencies of all subsidiaries correspond to the currency of the country of incorporation of the respective subsidiary.

Where subsidiaries prepare their financial statements in functional currencies other than the Euro, being the Group's reporting currency, the assets, liabilities and notes to the statement of financial position are translated at the rate of exchange applicable at the balance sheet date (closing rate). Goodwill allocated to these companies and adjustments of the fair value arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and also translated at the rate of exchange applicable at the balance sheet date. The items of the income statement and hence the result for the year shown in the income statement are translated at the average rate of the month in which the respective transaction takes place.

Differences arising on the translation of the annual financial statements of foreign subsidiaries are reported outside profit and loss and separately shown as foreign exchange differences in the consolidated statement of changes in equity. When a foreign company or operation is sold, any foreign exchange differences previously included in equity outside profit and loss are recognised as a gain or loss from disposal in the income statement through profit and loss.

Translation differences relating to non-monetary items with changes in their fair values eliminated through profit and loss (e. g. equity instruments measured at their fair value through profit and loss) are included in the income statement. In contrast, translation differences for non-monetary items with changes in their fair values taken to equity (e. g. equity instruments classified as available for sale) are included in revenue reserves.

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

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

### NET INVESTMENT IN A FOREIGN OPERATION

Monetary items receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, essentially constitute part of a net investment in this foreign operation. Foreign exchange differences from the translation of these monetary items are recognised in other comprehensive income.

**EXCHANGE RATES OF CURRENCIES OF RELEVANCE TO THE TUI GROUP**

| | Closing rate | | Annual average rate | |
|---|---|---|---|---|
| 1 € equivalent | **30 Sep 2016** | 30 Sep 2015 | **2015/16** | 2014/15 |
| Sterling | 0.86 | 0.74 | 0.78 | 0.74 |
| US dollar | 1.12 | 1.12 | 1.11 | 1.15 |
| Swiss franc | 1.09 | 1.09 | 1.09 | 1.10 |
| Swedish krona | 9.62 | 9.41 | 9.35 | 9.35 |

## CONSOLIDATION METHODS

The recognition of the net assets of acquired businesses is based on the acquisition method. Accordingly all identifiable assets and all liabilities assumed are measured at fair value as of the acquisition date. Subsequently, the consideration for the stake is measured at fair value and eliminated against the acquiree's revalued equity attributable to the acquired share. As in the prior year, the option to measure the non-controlling interests at their fair value (full goodwill method) was not used.

Any excess of acquisition costs over net assets acquired is capitalised as goodwill and recognised as an asset for the acquired subsidiary in accordance with the provisions of IFRS 3. Any negative goodwill is recognised immediately in profit and loss and presented as other income.

When additional shares are purchased after obtaining control, the difference between the purchase price and the carrying amount of the stakes acquired is recognised directly in equity. The effects from sales of stakes not entailing a loss of control are also recognised directly in equity. By contrast, when control is obtained or lost, gains or losses are recognised in profit and loss. In the case of business combination achieved in stages (where the acquirer held an equity interest before he obtained control), the equity stake previously held in the acquired company is revalued at the fair value applicable at the acquisition date and the resulting gain or loss is recognised in profit or loss. For transactions involving a loss of control, the profit or loss does not only comprise the difference between the carrying amounts of the disposed stakes and the consideration received but also the result from the revaluation of the remaining shares.

On loss of control of a subsidiary the gain or loss on derecognition will be calculated as the difference of the fair value of the consideration plus the fair value of any investment retained in the former subsidiary less the share of the book value of the net assets of the subsidiary. Any gains or losses previously recognised in other comprehensive income from currency translations or the valuation of financial assets and liabilities will be reclassified to the profit or loss statement. When a subsidiary is sold, any goodwill allocated to the respective subsidiary is taken into account in the calculation of the profit or loss of disposal.

The Group's associates and joint ventures are measured at equity and included at the cost to purchase as at the acquisition date. The Group's stake in associates and joint ventures includes the goodwill arising from the respective acquisition.

The Group's share in profits and losses of associates and joint ventures is carried in the income statement as from the date of acquisition (Share of result from joint ventures and associates), while the Group's share in changes in reserves is shown in its revenue reserves. The accumulated changes arising after the acquisition are shown in the carrying amount of the participation. When the share in the loss of an associated company or joint venture equals or exceeds the Group's original stake in this company, including other unsecured receivables, no further losses are recognised. Any losses exceeding that stake are only recognised to the extent that obligations have been assumed or payments have been made for the associated company or joint venture.

Where the accounting and measurement methods applied by associates and joint ventures differ from the uniform accounting rules applied in the Group, the differences are adjusted.

Intercompany receivables and payables or provisions are eliminated. Intercompany turnover and other income as well as the corresponding expenses are eliminated. Intercompany results from intercompany deliveries and services are reversed through profit and loss, taking account of deferred taxes. However, intercompany losses are an indicator that an asset may be impaired. Intercompany profits from transactions with companies measured at equity are eliminated in relation to the Group's stake in the company. Intercompany transactions are provided at arm's length.

## Accounting and measurement methods

The consolidated financial statements were prepared according to the historical cost principle, with the exception of certain financial instruments such as financial assets and derivatives held for trading or available for sale as well as plan assets from externally funded defined-benefit obligations held at fair value at the balance sheet date.

The financial statements of the consolidated subsidiaries are prepared in accordance with uniform accounting and measurement principles. The amounts recognised in the consolidated financial statements are not determined by tax regulations but solely by the commercial presentation of the net assets, financial position and results of operations as set out in the rules of the IASB.

### TURNOVER RECOGNITION

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

Turnover and other income is recognised upon delivery of the service or assets and hence upon transfer of the risk.

The commission fees received by travel agencies for package tours are recognised once the travel agencies have performed their contractual obligations towards the tour operator. As a rule, this condition is met upon payment by the customers or, at the latest, at the date of departure. The services of tour operators mainly consist in organising and coordinating package tours. Turnover from the organisation of tours is therefore recognised in full when the customer departs. Turnover from individual travel modules booked by the customer directly with airlines, hotel companies or incoming agencies is recognised when the customers use the services concerned. Income from non-completed cruises is recognised according to the proportion of contract performance at the balance sheet date. The percentage of completion is determined as the ratio between travel days completed by the balance sheet date and overall travel days.

Interest income is reported on a prorated basis according to the effective interest method. Dividends are recognised when the legal entitlement has arisen.

### GOODWILL AND OTHER INTANGIBLE ASSETS

Acquired intangible assets are carried at cost. Self-generated intangible assets, primarily software for use by the Group itself, are capitalised at cost where an inflow of future economic benefits for the Group is probable and can be reliably measured. The cost to produce comprises direct costs and directly allocable overheads. Intangible assets with a finite service life are amortised over the expected useful life.

Intangible assets acquired as a result of business combinations, such as order book, customer base or trademark rights, are included at their fair value as at the date of acquisition and are amortised on a straight-line basis.

**USEFUL LIVES OF INTANGIBLE ASSETS**

| | Useful lives |
|---|---|
| Concessions, property rights and similar rights | up to 20 years |
| Trademarks at acquisition date | 15 to 20 years |
| Order book as at acquisition date | until departure date |
| Software | 3 to 10 years |
| Customer base as at acquisiton date | up to 15 years |

If there are any events or indications suggesting potential impairment, the amortised carrying amount of the intangible asset is compared with the recoverable amount. Any losses in value going beyond wear-and-tear depreciation are taken into account through the recognition of impairments.

Depending on the functional area of the intangible asset, depreciation, amortisation and impairments are included under cost of sales or administrative expenses. If the original cause of a prior year impairment no longer applies, the impairment is written back to other income.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually. In addition, impairment tests are conducted if there are any events or indications suggesting potential impairment. The TUI Group's intangible assets with an indefinite useful life consist exclusively of goodwill.

Impairment tests for goodwill are conducted on the basis of cash generating units. According to the IASB rules, cash generating units are the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Impairments are recognised where the carrying amount of the tested units plus the allocated goodwill exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and the present value of future cash flows based on continued use (value in use). The fair value less costs of disposal corresponds to the amount that could be generated between knowledgeable, willing, independent business partners after deduction of the costs of disposal. Due to the restrictions applicable to the determination of cash flows when deriving the value in use, e.g. the requirement not to account for earnings effects from investments in expansions or from restructuring activities for which no provision was formed according to IAS 37, the fair value less costs of disposal usually exceeds the value in use and therefore represents the recoverable amount.

Impairments of goodwill required are shown separately in the consolidated income statement. In accordance with IAS 36, reversals of goodwill impairment losses is prohibited.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at amortised cost. The costs to purchase include costs to bring the asset to a working condition. The costs to produce are determined on the basis of direct costs and directly attributable indirect costs and depreciation.

Borrowing costs directly associated with the acquisition, construction or production of qualifying assets are included in the costs to acquire or produce these assets until the assets are ready for their intended use. The capitalisation rate is 3.25 % for the current financial year and 4.00 % for the previous year. In financial year 2015 / 16, borrowing costs of € 2.1 m (previous year € 8.8 m) were capitalised as part of the costs to purchase and costs to produce. Other borrowing costs are recognised as current expenses.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the underlying capitalisation rate is determined on the basis of the specific borrowing cost; in all other cases the weighted average of the borrowing costs applicable to the borrowings outstanding is applied.

Depreciation of property, plant and equipment is based on the straight-line method, based on the customary useful lives. The useful economic lives are as follows:

**USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT**

| | Useful lives |
|---|---|
| Hotel buildings | 30 to 40 years |
| Other buildings | up to 50 years |
| Cruise ships | 20 to 30 years |
| Yachts | 5 to 15 years |
| Motorboats | 15 to 24 years |
| Aircraft | |
| Fuselages and engines | up to 18 years |
| Engine overhaul | depending on intervals, up to 5 years |
| Major overhaul | depending on intervals, up to 5 years |
| Spare parts | 12 years |
| Other machinery and fixtures | up to 40 years |
| Operating and business equipment | up to 10 years |

Moreover, the level of depreciation is determined by the residual amounts recoverable at the end of the useful life of an asset. The residual value assumed in first-time recognition for cruise ships and hotel complexes is 30 % of the acquisition costs. The determination of the depreciation of aircraft fuselages, aircraft engines and spare parts in first-time recognition is based on a residual value of 20 % of the cost of acquisition.

Both the useful lives and residual values are reviewed on an annual basis when preparing the annual financial statements. The review of the residual values is based on comparable assets at the end of their useful lives as at the current point in time. Any adjustments required are recognised as a correction of depreciation over the remaining useful life of the asset. The adjustment of depreciation is recognised retrospectively for the entire financial year in which the review has taken place. Where the review results in an increase in the residual value so that it exceeds the remaining net carrying amount of the asset, depreciation is suspended. In this case, the amounts are not written back.

Any losses in value going beyond wear-and-tear depreciation are taken into account through the recognition of impairment losses. If there are any events or indications suggesting impairment, the required impairment test is performed to compare the carrying amount of an asset with the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and the value of future cash flows attributable to the asset (value in use).

Investment grants received are shown as reductions in the costs to purchase or produce items of property, plant or equipment where these grants are directly allocable to individual items. Where a direct allocation of grants is not possible, the grants and subsidies received are included as deferred income under other liabilities and reversed in accordance with the use of the investment project.

## LEASES

### FINANCE LEASES

In accordance with IAS 17, leased property, plant and equipment in which the TUI Group assumes substantially all the risks and rewards of ownership is capitalised. Capitalisation is based on the fair value of the asset or the present value of the minimum lease payments, if lower. Depreciation is charged over the useful life or the lease term, if shorter, on the basis of the depreciation method applicable to comparable purchased or manufactured assets. Payment obligations arising from future lease payments are disclosed as liabilities, excluding future interest expenses. Every lease payment is broken down into an interest portion and a redemption portion so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest portion is disclosed in the income statement through profit or loss.

Where companies of the TUI Group are lessors in finance leases, receivables equivalent to the net investment value are included for the leases. The periodic distribution of the income from finance leases results in constant interest payments on the outstanding net investment volume of the leases over the course of time.

#### OPERATING LEASES

Both expenses incurred and income received under operating leases are recognised in the income statement on a straight-line basis over the term of the corresponding leases.

#### SALE-AND-LEASE-BACK TRANSACTIONS

Gains from sale-and-lease-back transactions resulting in a finance lease are recognised in income over the term of the lease.

If a sale-and-lease-back transaction results in an operating lease, a gain or loss is recognised immediately if the transaction has demonstrably been carried out at fair value. If a loss is compensated for by future lease payments at below-market price, this loss is deferred and amortised over the term of the lease agreement. If the agreed purchase price exceeds fair value, the gain arising from the difference between these two values is also deferred and amortised.

### INVESTMENT PROPERTY

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

### FINANCIAL INSTRUMENTS

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

In accordance with IAS 39, financial instruments are broken down into financial assets or liabilities to be measured at fair value through profit and loss, loans and receivables, financial assets available for sale, financial assets held to maturity and other liabilities.

In terms of financial instruments measured at fair value through profit and loss, the TUI Group holds derivative financial instruments mainly to be classified as held for trading as they do not meet the balance sheet-related criteria as hedges in the framework of a hedging relationship. The fair value option is not exercised. Moreover, the TUI Group holds financial assets in the loans and receivables and available for sale categories. However, the present financial statements do not include any assets held to maturity.

In financial year 2015 / 16 as well as in the prior year, no significant reclassifications were made within the individual measurement categories.

### PRIMARY FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Primary financial assets are recognised at the value as at the trading date on which the Group commits to buy the asset. Primary financial assets are classified as loans and receivables or as financial assets available for sale when recognised for the first time. Loans and receivables as well as financial assets available for sale are initially recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or fixable contractual payments not listed in an active market. They are shown under trade accounts receivable and other assets in the statement of financial position and classified as current receivables if they mature within twelve months of the balance sheet date.

For subsequent measurement, loans and receivables are valued at amortised cost based on the effective interest method. Value adjustments are made to account for identifiable individual risks. Where objective information indicates that impairments are required, e. g. substantial financial difficulties of the counterparty, payment delays or adverse changes in regional industry conditions expected to impact the Group's borrowers in the light of past experience, impairments are recognised at an amount corresponding to the expected loss. Impairments and reversals of impairments are included under cost of sales, administrative expenses or financial expenses, depending on the nature of the transaction.

Financial assets available for sale are non-derivative financial assets either individually expressly allocated to this category or not allocable to any other category of financial assets. Within the TUI Group, they consist of stakes in companies and securities. They are allocated to non-current assets unless management intends to sell them within twelve months of the balance sheet date.

Financial assets available for sale are measured at their fair value upon initial recognition. Changes in the fair value are included in equity outside profit or loss until the disposal of the assets. If there is objective evidence of impairment, an impairment loss is taken through profit and loss. Objective evidence may, in particular, be substantial financial difficulties of the counterparty and significant changes in the technological, market, legal or economic environment. Moreover, for equity instruments held, a significant or prolonged decline in the fair value below its cost is also objective evidence of impairment. The TUI Group concludes that a significant decline exists if the fair value falls by more than 20% below cost. A decline is assessed as prolonged if the fair value remains below cost for more than twelve months. In the event of subsequent reversal of the impairment, the impairment included in profit or loss is not reversed for equity instruments but recognised in other comprehensive income. Where a listed market price in an active market is not available for shares held in companies and other methods to determine an objective market value are not applicable, these equity instruments are measured at cost.

A derecognition of assets is primarily recognised as at the date on which the rights for payments from the asset expire or are transferred and therefore as at the date essentially all risks and rewards of ownership are transferred.

Primary financial liabilities are included in the consolidated statement of financial position if an obligation exists to transfer cash and cash equivalents or other financial assets to another party. First-time recognition of a primary liability is recognised at its fair value. For loans taken out, the nominal amount received is reduced by discounts obtained and borrowing costs paid. In the framework of follow-up measurement, primary financial liabilities are measured at amortised cost based on the effective interest method.

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

At initial measurement, derivative financial instruments are measured at the fair value attributable to them on the date the contract is entered into. Subsequent re-measurement is also recognised at the fair value applicable at the respective balance sheet date. Where derivative financial instruments are not part of a hedge in connection with hedge accounting, they have to be classified as held for trading in accordance with IAS 39.

The method used to recognise profits and losses depends on whether the derivative financial instrument has been classified as a hedge and on the type of underlying hedged item. Changes in the fair values of derivative financial instruments are recognised in profit and loss unless they are classified as a hedge in accordance with IAS 39. If they are classified as an effective hedge in accordance with IAS 39, the transaction is recognised as a hedge.

The TUI Group applies the hedge accounting provisions relating to hedging of balance sheet items and future cash flows. Depending on the nature of the underlying transaction, the Group classifies derivative financial instruments either as fair value hedges against exposure to changes in the fair value of assets or liabilities or as cash flow hedges against variability in cash flows from highly probable future transactions.

Upon conclusion of the transaction, the Group documents the hedge relationship between the hedge and the underlying item, the risk management goal and the underlying strategy. In addition, a record is kept of the assessment, both at the beginning of the hedge relationship and on a continual basis, as to whether the derivatives used for the hedge are highly effective in compensating for the changes in the fair values or cash flows of the underlying transactions.

Changes in the fair value of derivatives used as fair value hedges for the recognised assets or liabilities are recognised through profit and loss. Moreover, the carrying amounts of the underlying transactions are adjusted through profit and loss for the gains or losses resulting from the hedged risk.

The effective portion of changes in the fair value of derivatives forming cash flow hedges is recognised in equity. Any ineffective portion of such changes in the fair value, by contrast, is recognised immediately in the income statement through profit and loss. Amounts taken to equity are reclassified to the income statement and included as income or expenses in the period in which the hedged item has an effect on results.

If a hedge expires, is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss remains in equity and is only recognised in the income statement through profit and loss when the originally hedged future transaction occurs. If the future transaction is no longer expected to take place, the cumulative gains or losses recognised directly in equity are recognised immediately through profit and loss.

### INVENTORIES

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

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, call deposits, other current highly liquid financial assets with an original term of a maximum of three months and current accounts. Overdrawn current accounts are shown as liabilities to banks under current financial liabilities.

### NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if the associated carrying amount will be recovered principally through sale rather than through continued use.

The reclassification is made at the lower of carrying amount and fair value less cost of disposal. Depreciation and at equity measurements are suspended. Impairment charges are recognised in profit and loss, with any gains on subsequent remeasurement resulting in the recognition of profits of up to the amount of the cumulative impairment cost.

### EQUITY

Ordinary shares are classified as equity. Costs directly allocable to the issue of new shares or conversion options are taken to equity on a net after-tax basis as a deduction from the issuance proceeds.

### OWN SHARES

The group's holdings in its own equity instruments are shown as deductions from shareholders' equity at cost, including directly attributable transaction costs. Own equity instruments are held by an employee benefit trust of TUI Travel Ltd. No gain or loss is recognised in the income statement on the purchase or sale of shares by the employee benefit trust. Any difference between the proceeds from sale and the original cost are taken to reserves.

### PROVISIONS

Other provisions are formed when the Group has a current legal or constructive obligation as a result of a past event and where in addition it is probable that assets will be impacted by the settlement of the obligation and the level of the provision can be reliably determined. Provisions for restructuring comprise severance payments to employees and payments for the early termination of rental agreements. Provisions for environmental protection measures, in particular the disposal of legacy industry waste, are recognised if future cash outflows are likely due to legal and public obligations to implement safeguarding or restoration measures, if the cost of these measures can be reliably estimated and the measures are not expected to lead to a future inflow of benefits.

Provisions for onerous losses are formed if the unavoidable costs of meeting contractual obligations exceed the expected economic benefit. Any assets concerned are impaired, if necessary, prior to forming the appropriate provision. No provisions are recognised for future operating losses.

Where a large number of similar obligations exist, the probability of a charge over assets is determined on the basis of this group of obligations. A provision is also recognised if the probability of a charge over assets is low in relation to an individual obligation contained in this group.

Provisions are measured at the present value of the expected expenses, taking account of a pre-tax interest rate, reflecting current market assessments of the time value of money and the risks specific to the liability. Risks already taken into account in estimating future cash flows do not affect the discount rate. Increases in provisions due to accretion of interest are recognised as interest expenses through profit or loss.

The pension provision recognised for defined benefit plans corresponds to the net present value of the defined benefit obligations (DBOs) as at the balance sheet date less the fair value of the plan assets. If the value of the plan assets exceeds the value of the DBO, the exceeding amount is shown within other assets. Measurement of such an asset is limited to the net present value of the value in use in the form of reimbursements from the plan or reductions in future contribution payments. The DBOs are calculated annually by independent actuaries using the projected unit credit method. The net present value of the DBOs is calculated by discounting the expected future outflows of cash at a rate based on the interest rate of top-rated corporate bonds.

Past service cost is immediately recognised through profit or loss. Remeasurements (in particular actuarial gains and losses) arising from the regular adjustment of actuarial parameters are eliminated against equity outside profit and loss in full when they occur.

For defined contribution plans, the Group pays contributions to public or private pension insurance plans on the basis of a statutory or contractual obligation or on a voluntary basis. The Group does not have any further payment obligations on top of the payment of the contributions. The contributions are recognised under staff costs when they fall due.

### LIABILITIES

Liabilities are always recognised at the date on which they arise at fair value less borrowing and transaction costs. Over the course of time, liabilities are measured at amortised cost based on application of the effective interest method.

As a matter of principle, the foreign exchange differences resulting from the translation of trade accounts payable are reported as a correction of the cost of sales. Foreign exchange differences from the translation of liabilities not resulting from normal operating processes are reported under other income / other expenses, financial expenses / income or administrative expenses, depending on the nature of the underlying liability.

### DEFERRED TAXES

In accordance with IAS 12, deferred taxes are determined using the balance sheet liability method. Accordingly, probable future tax assets and liabilities are recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Expected tax savings from the use of losses carried forward assessed as recoverable in the future are recognised as deferred tax assets. Regardless of the unlimited ability to carry German losses forward which continues to exist, the annual utilisation is limited by the minimum taxation. Foreign losses carried forward frequently have to be used within a given country-specific time limit and are subject to restrictions concerning the use of these losses carried forward for profits on ordinary activities, which are taken into account accordingly in the measurement.

Income tax is directly charged or credited to equity if the tax relates to items directly credited or charged to equity in the same period or some other period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference or an unused tax loss can be utilised.

Deferred taxes are measured at the tax rates and tax provisions applicable at the balance sheet date or adopted by law and expected to be applicable at the date of recognition of the deferred tax asset or the payment of the deferred tax liability.

### CURRENT INCOME TAXES

The German companies of the TUI Group have to pay trade income tax of 15.7 % (previous year 15.2 %). As in the prior year, the corporation tax rate is 15.0 %, plus a 5.5 % solidarity surcharge on corporation tax.

The calculation of foreign income taxes is based on the laws and provisions applicable in the individual countries. The income tax rates applied to foreign companies vary from 0.0 % to 40.0 %.

Deferred and current income tax liabilities are offset against the corresponding tax assets if they exist in the same fiscal territory and have the same nature and maturity.

### SHARE-BASED PAYMENTS

All share-based payment schemes in the Group are payment schemes paid in cash or via equity instruments.

For transactions with cash compensation, the resulting liability for the Group is charged to expenses at its fair value as at the date of the performance of the service by the beneficiary. Until payment of the liability, the fair value of the liability is remeasured at every closing date and all changes in the fair value are recognised through profit and loss.

For equity settled transactions the fair value of the awards granted is recognised under staff costs with a corresponding direct increase in equity. The fair value is determined at the point when the awards are granted and spread over the vesting period during which the employees become entitled to the awards.

The fair value of the awards granted is measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. The amount to be included under staff costs is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to market-based performance conditions not meeting the thresholds for vesting.

### SUMMARY OF SELECTED ACCOUNTING AND MEASUREMENT METHODS

The table below lists the key accounting and measurement methods used by the TUI Group.

**SUMMARY OF SELECTED MEASUREMENT BASES**

| Item in the statement of financial position | Measurement base |
|---|---|
| **Assets** | |
| Goodwill | At cost (subsequent measurement: impairment test) |
| Other intangible assets with indefinite useful lives | At cost (subsequent measurement: impairment test) |
| Other intangible assets with definite useful lives | At amortised cost |
| Property, plant & equipment | At amortised cost |
| Equity accounted investments | At cost as adjusted for post-acquisition changes in the Group's share of the investment's net assets |
| Financial assets | |
| Loans and receivables | At amortised cost |
| Held to maturity | Not applicable |
| Held for trading / Derivatives | At fair value |
| Available for sale | Fair value (with gains or losses recognised within other comprehensive income) or at cost |
| Inventory | Lower of cost and net realisable value |
| Trade and other receivables | At amortised cost |
| Cash and cash equivalents | At cost |
| Assets held for sale | Lower of cost and fair value less cost of disposal |
| **Liabilities and Provisions** | |
| Loans and borrowings | At amortised cost |
| Provision for pensions | Projected unit credit method |
| Other provisions | Present value of the settlement amount |
| Financial liabilities | |
| Non-derivative financial liabilities | At amortised cost |
| Derivative financial liabilities | At fair value |
| Payables, trade and other liabilities | At amortised cost |

## Key estimates and judgements

The presentation of the assets, liabilities, provisions and contingent liabilities shown in the consolidated financial statements is based on estimates and judgements. Any uncertainties are appropriately taken into account in determining the values.

All estimates and judgements are based on the conditions and assessments as at the balance sheet date. In evaluating the future development of business, reasonable assumptions were made regarding the expected future economic environment in the business areas and regions in which the Group operates.

Estimates and judgements that may have a material impact on the amounts reported for assets and liabilities in the TUI Group are mainly related to the following balance sheet-related facts and circumstances:

- Establishment of assumptions for impairment tests, in particular for goodwill,
- Determination of the fair values for acquisitions of companies and determination of the useful lives of acquired intangible assets,
- Determination of useful lives and residual carrying amounts of property, plant and equipment,
- Determination of actuarial assumptions to measure pension obligations,
- Recognition and measurement of other provisions,
- Recoverability of future tax savings from tax losses carried forward and tax-deductible temporary differences
- Measurement of tax risks
- Recoverable amounts of touristic prepayments.

Other estimates and judgements relate to the determination of the recoverable amount in relation to impairment tests for equity accounted investments and the determination of the fair value of financial instruments.

Despite careful preparation of the estimates, actual results may differ from the estimate. In such cases, the assumptions and the carrying amounts of the assets and liabilities concerned, if necessary, are adjusted accordingly. As a matter of principle, changes in estimates are taken into account in the financial year in which the changes have occurred and in future periods.

### GOODWILL

The goodwill reported as at 30 September 2016 has a carrying amount of € 2,853.5 m (previous year € 3,220.4 m). The determination of the recoverable amount of a CGU for the annual impairment test requires estimates and judgement with regard to the methodology used and the assumptions, which may have a considerable effect on the recoverable amount and the level of a potential impairment. They relate, in particular, to the weighted average cost of capital (WACC) after income taxes, used as the discounting basis, the growth rate in perpetuity and the forecasts for future cash flows including the underlying budget assumptions based on corporate planning. Changes in these assumptions may have a substantial impact on the recoverable amount and the level of a potential impairment.

### ACQUISITION OF COMPANIES AND INTANGIBLE ASSETS

In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In this context, cash flow-based methods are regularly used. Depending on the assumptions underlying such methods, different results may be produced. In particular, some judgement is required in estimating the economic useful lives of intangible assets and determining the fair values of contingent liabilities.

Detailed information on acquisitions of companies or useful lives of intangible assets is provided in the section "Acquisitions – divestments – discontinued operation" in the chapter on "Principles and methods of consolidation" and in the section on "Goodwill and other intangible assets" of the chapter "Accounting and measurement methods".

### PROPERTY, PLANT AND EQUIPMENT

The measurement of wear-and-tear to property, plant and equipment items entails estimates. The carrying amount of property, plant and equipment as at 30 September 2016 totals € 3,714.5 m (previous year € 3,636.8 m). In order to review the amounts carried, an evaluation is carried out on an annual basis to assess whether there are any indications of a potential impairment. These indications relate to a number of areas and factors, e. g. the market-related or technical environment but also physical condition. If any such indication exists, management must estimate the recoverable amount on the basis of expected cashflows and appropriate interest rates. Moreover, essential estimates and judgements relate to the definition of economic useful lives as well as the residual amounts of items of property, plant and equipment which may be recovered.

More detailed information on the useful lives and residual values of property, plant and equipment items is provided in the section "Property, plant and equipment" in the chapter "Accounting and measurement methods".

### PENSION PROVISIONS

As at 30 September 2016, the carrying amount of provisions for pensions and similar obligations totals €1,450.9 m (previous year €1,146.9 m). For those pension plans where the plan assets exceed the obligation, other assets amounting to €36.2 m are shown as at 30 September 2016 (prior year €15.2 m).

In order to determine the obligations under defined benefit pension schemes, actuarial calculations are used which rely on underlying assumptions concerning life expectancy and the discount rate. In respect of the estimation of the discount rate used for the UK pensions plans, there has been a change as at 30 September 2016 in regard to the determination that is explained in the section "Changes in estimates".

At the balance sheet date, the fair value of the plan assets totals €2,676.0 m (previous year €2,302.1 m). As assets classified as plan assets are never available for short-term sale, the fair values of these plan assets may change significantly up to the realisation date. The interest rate used to discount the liability is also used to determine the expected return on plan assets.

Detailed information on actuarial assumptions is provided in Note 31.

### OTHER PROVISIONS

As at 30 September 2016, other provisions of €1,177.8 m (previous year €1,209.7 m) are reported. When recognising and measuring provisions, assumptions are required about probability of occurrence, maturity and level of risk. Provisions are recognised if a past event has resulted in a current legal or constructive obligation, if an outflow of assets is probable in order to meet that obligation, and if a reliable estimate can be made of the amount of the liability.

Determining whether a current obligation exists is usually based on review by internal or external experts. The amount of provision is based on expected expenses, and is either calculated by assessing the specific case in the light of empirical values, outcomes from comparable circumstances, or else estimated by experts. Due to the uncertainties associated with assessment, actual expenses may deviate from estimates so that unexpected charges may result.

More detailed information on other provisions is offered in the Notes to the statement of financial position in Note 32.

### DEFERRED TAX ASSETS

As at 30 September 2016, deferred tax assets totalling €344.7 m (previous year €330.7 m restated) were recognised. Prior to offsetting against deferred tax liabilities, deferred tax assets total €727.5 m, included an amount of €211.5 m (previous year €239.4 m) for recognised losses carried forward. The assessment of the recoverability of deferred tax assets is based on the ability of the respective Group company to generate sufficient taxable income. TUI therefore assesses at every balance sheet date whether the recoverability of expected future tax savings is sufficiently probable in order to recognise deferred tax assets. The assessment is based on various factors including internal forecasts regarding the future tax asset situation of the Group company. If the assessment of the recoverability of future deferred tax assets changes, impairments may be recognised, if necessary, on the deferred tax assets.

More detailed information on deferred tax assets is available in the Notes to the statement of financial position in Note 21.

### INCOME TAXES

The Group is liable to pay income taxes in various countries. Key estimates are required when determining income tax liabilities, including the probability, the timing and the size of any amounts that may become payable. For certain transactions and calculations the final tax charge cannot be determined during the ordinary course of business. After taking appropriate external advice, the Group makes provisions or discloses contingencies for uncertain tax positions based on the probable or possible level of additional taxes that might be incurred. The level of obligations for expected tax audits is based on an estimation of whether and to what extent additional income taxes will be due. Judgements are corrected, if necessary, in the period in which the final tax charge is determined.

Detailed information on the German trade tax liability is available in the Notes to contingent liabilities in Note 39.

### RECOVERABLE AMOUNTS OF TOURISTIC PREPAYMENTS

At 30 September 2016, trade receivables and other assets include touristic prepayments of € 724.2 m (previous year € 966.6 m). The assessment of the recoverable amounts of touristic prepayments made to hoteliers requires judgement about the volume of future trading with hoteliers and the credit worthiness of those hoteliers. To assess the recoverablity of touristic prepayments, TUI considers the financial strength of those hoteliers, the quality of the hotels as well as the demand for each hotel and the relevant destination during the past and in coming seasons.

### CHANGES IN ESTIMATES

In financial year 2015 / 16, the basis for the determination of the discount rate for pension plans in the UK has changed. The discount rate used for pension provisions is based on an index of first-class corporate bonds. Previously, the yield structure resulting from that index has been extrapolated on the basis of the yield curves for various almost risk-free bonds, taking account of an appropriate risk mark-up reflecting the term of the obligation. The bonds to be used have to reflect the maturity of the obligation. Due to the small size of the market for long-term bonds, the calculation has exclusively been based on market data for medium-term bonds to date. In order to enhance the presentation of the maturities profile of UK pension plans, the determination of the yield structure now also includes bonds with longer maturities. This change causes an increase in the scope of market data included in the determination.

The change in this estimate causes an increase in the discount rate of 15 basis points. As a result, provisions for pensions and similar obligations declined by € 111.5 m, while deferred tax assets decreased by € 22.3 m and equity rose by € 89.2 m without impact on profit and loss.

Due to the higher discount rate, the net interest on the defined benefit pension plans will also increase in the next financial year. Applying the same estimates as in the past, the net interest for the pension plans concerned would be € 64.3 m for financial year 2016 / 17. Using the changed estimates, the expected net interest for these plans now totals € 68.7 m for the next financial year.

# Segment reporting

## Notes on the segments

The identification of operating segments is based on the internal organisational and reporting structure primarily built around the different products and services as well as a geographical structure within the TUI Group. Allocation of individual organisational entities to operating segments is exclusively based on economic criteria, irrespective of the participation structure under company law. The segments are independently managed by those in charge, who regularly receive separate financial information for each segment. They regularly report to the Group Executive Committee, which consists of five Executive Board members and six other executives. The legally binding decision regarding the use of resources is taken by the Executive Board. The TUI Group Executive Board has therefore been identified as the Chief Operating Decision Maker (CODM) in accordance with IFRS 8.

The Northern Region segment comprises the tour operators and airlines as well as the cruise business in the UK, Ireland and the Nordic countries. This segment also comprises the strategic Canadian venture Sunwing and the joint venture TUI Russia. Since Q3 2015 / 16, this segment has also included the tour operators Crystal Ski and Thomson Lakes & Mountains, previously carried in the Specialist Group segment, which provide winter season business for the UK airline. The prior year's numbers have been restated to reflect the changes in the segments.

The Central Region segment comprises the tour operators and airlines in Germany and tour operators in Austria, Poland and Switzerland.

The Western Region segment comprises the tour operators and airlines in Belgium and the Netherlands and the tour operator in France.

The Hotels & Resorts segment comprises all Group-owned hotels and hotel shareholdings of the TUI Group. The hotel activities of the former Travel Sector have also been allocated to the Hotels & Resorts segment.

The Cruises segment consists of Hapag-Lloyd Cruises and the joint venture TUI Cruises.

The Other Tourism segment comprises the French schedules airline Corsair and central tourism functions such as the flight control and information technology. In addition, the incoming agencies previously carried in the Hotelbeds Group segment have been integrated into the Tourism business and are therefore also shown in the Other Tourism segment. The prior year's numbers have been restated to reflect the changes in the segments.

In addition to the above segments forming the Tourism business, "All other segments" is recognised. It comprises all business operations not related to the Tourism business, and includes the central corporate functions and interim holdings of TUI Group and the Group's real estate companies.

Due to the planned sale of Specialist Group in financial year 2016 / 17, this segment is carried as a discontinued operation at the balance sheet date. The prior year's numbers are restated accordingly. Specialist Group comprises the specialist tour operators, offering expedition travel, luxury tours, sports event packages, student travel and sailing holidays. Hotelbeds Group, classified as a discontinued operation in Q2 2015 / 16, which comprises B2B hotel portals and incoming agencies, was sold on 12 September 2016. The turnover and profit until the divestment date are also shown in the line "Discontinued operations". The prior year's segment reporting was adjusted accordingly. Discontinued operations also include LateRooms Group until it was sold on 6 October 2015. For more detailed explanations of discontinued operations, refer to the section Discontinued operations in the section on Acquisitions – Divestments – Discontinued Operations.

## Notes to the segment data

The selection of segment data presented is based on the regular internal reporting of segmented financial indicators to the Executive Board. Segment reporting discloses in particular the performance indicators EBITA and underlying EBITA, since these indicators are used for value-oriented corporate management and thus represent the consolidated performance indicator within the meaning of IFRS 8.

The TUI Group defines EBITA as earnings before interest, income taxes and goodwill impairments. EBITA includes amortisation of other intangible assets. EBITA does not include measurement effects from interest hedges and the proportionate result and measurement effects from container shipping, as the stake in Hapag-Lloyd AG is a financial investment rather than an operative stake from TUI AG's perspective.

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

Alongside this indicator, segment reporting is extended to include EBITDA and EBITDAR. In the TUI Group EBITDA is defined as earnings before interest, income taxes, goodwill impairments and amortisation and write-ups of other intangible assets, depreciation and write-ups of property, plant and equipment and investments. The amounts of amortisation and depreciation represent the net balance including write-backs. For the reconciliation from EBITDA to the indicator EBITDAR, long-term leasing and rental expenses are eliminated.

Internal and external turnover, depreciation and amortisation, impairments on other intangible assets (excluding goodwill), property, plant and equipment and investments as well as the share of result of joint ventures and associates are likewise shown for each segment, as these amounts are included when measuring EBITA. As a rule, inter-segment business transactions are based on the arm's length principle, as applied in transactions with third parties. No single external customer accounts for 10 % or more of turnover.

Assets and liabilities per segment are not included in the reporting to the Executive Board and are therefore not shown in segment reporting. The only asset-related segmental indicator reported to the Executive Board is capital expenditure, which therefore is also disclosed in the segment reporting. The amounts shown represent cash capital expenditure on intangible assets and property, plant and equipment in line with the indicator reported internally. Related financing loans and finance lease agreements are not included in this indicator. Therefore the amount of the capital expenditure does not coincide with the additions to intangible assets and property, plant and equipment in the fixed assets and intangible assets movements. A reconciliation of the investments is presented in a separate table.

Depreciation, amortisation and write-backs relate to non-current assets that are split geographically and do not include goodwill impairments.

The non-current assets, which are split geographically, contain other intangible assets, investment property, property, plant and equipment and other non-current assets that do not meet the definition of financial instruments.

## Segment indicators

### TURNOVER BY SEGMENT

| € million | 2015/16 External | 2015/16 Group | 2015/16 Total | 2014/15 External | 2014/15 Group restated | 2014/15 Total restated |
|---|---|---|---|---|---|---|
| Northern Region | 7,001.5 | 50.9 | 7,052.4 | 7,348.4 | 71.4 | 7,419.8 |
| Central Region | 5,566.6 | 54.8 | 5,621.4 | 5,600.9 | 57.9 | 5,658.8 |
| Western Region | 2,869.9 | 18.9 | 2,888.8 | 2,847.0 | 9.6 | 2,856.6 |
| Hotels & Resorts | 618.6 | 659.8 | 1,278.4 | 574.8 | 677.4 | 1,252.2 |
| Cruises | 296.7 | – | 296.7 | 273.3 | – | 273.3 |
| Other Tourism | 665.5 | 258.0 | 923.5 | 704.8 | 160.2 | 865.0 |
| Consolidation | – | –972.7 | –972.7 | – | –885.4 | –885.4 |
| **Tourism** | **17,018.8** | **69.7** | **17,088.5** | **17,349.2** | **91.1** | **17,440.3** |
| All other segments | 165.8 | 44.1 | 209.9 | 166.3 | 40.6 | 206.9 |
| Consolidation | – | –113.8 | –113.8 | – | –131.7 | –131.7 |
| **Continuing operations** | **17,184.6** | **–** | **17,184.6** | **17,515.5** | **–** | **17,515.5** |
| Discontinued operations | 2,321.6 | 108.9 | 2,430.5 | 2,565.8 | 64.8 | 2,630.6 |
| **Total** | **19,506.2** | **108.9** | **19,615.1** | **20,081.3** | **64.8** | **20,146.1** |

### EBITA AND UNDERLYING EBITA BY SEGMENT

| € million | EBITA 2015/16 | EBITA 2014/15 | Underlying EBITA 2015/16 | Underlying EBITA 2014/15 |
|---|---|---|---|---|
| Northern Region | 440.4 | 513.4 | 460.9 | 538.4 |
| Central Region | 67.3 | 72.9 | 88.5 | 103.5 |
| Western Region | 72.1 | 57.7 | 86.1 | 68.7 |
| Hotels & Resorts | 285.1 | 195.7 | 287.3 | 234.6 |
| Cruises | 129.6 | 80.5 | 129.6 | 80.5 |
| Other Tourism | –6.2 | –4.1 | 4.6 | 8.4 |
| **Tourism** | **988.3** | **916.1** | **1,057.0** | **1,034.1** |
| All other segments | –90.2 | –121.5 | –56.5 | –80.9 |
| **Continuing operations** | **898.1** | **794.6** | **1,000.5** | **953.3** |
| Discontinued operations | 14.7 | 2.6 | 92.9 | 107.3 |
| **Total** | **912.8** | **797.2** | **1,093.4** | **1,060.5** |

In order to enhance comparability, EBITA from the discontinued operations does not include the gain from the sale of Hotelbeds Group.

## RECONCILIATION TO EARNINGS BEFORE INCOME TAXES OF THE CONTINUING OPERATIONS OF THE TUI GROUP

| € million | 2015/16 | 2014/15 restated |
|---|---|---|
| **Underlying EBITA of continuing operations** | **1,000.5** | **953.3** |
| Result on disposal* | –0.8 | 3.3 |
| Restructuring expense* | –12.0 | –59.4 |
| Expense from purchase price allocation* | –41.9 | –42.1 |
| Expense from other one-off items* | –47.7 | –60.5 |
| **EBITA of continuing operations** | **898.1** | **794.6** |
| Profit on Container Shipping measured at equity | – | 0.9 |
| Loss on measurement of financial investment in Container Shipping | –100.3 | –147.1 |
| Net interest expense and expense from measurement of interest hedges | –179.5 | –182.6 |
| **Earnings before income taxes of continuing operations** | **618.3** | **465.8** |

* For a description of the adjustments please refer to the management report.

## EBITDA AND EBITDAR BY SEGMENT

| | EBITDA | | Long-term leasing and rental expenses | | EBITDAR | |
|---|---|---|---|---|---|---|
| € million | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 |
| Northern Region | 534.6 | 619.3 | 372.8 | 374.9 | 907.4 | 994.2 |
| Central Region | 90.0 | 101.1 | 148.8 | 206.1 | 238.8 | 307.2 |
| Western Region | 97.9 | 78.0 | 153.5 | 144.2 | 251.4 | 222.2 |
| Hotels & Resorts | 380.1 | 308.7 | 110.1 | 116.8 | 490.2 | 425.5 |
| Cruises | 148.9 | 97.6 | 5.3 | 10.7 | 154.2 | 108.3 |
| Other Tourism | 54.5 | 60.6 | 39.3 | 36.1 | 93.8 | 96.7 |
| Consolidation | – | – | –7.5 | –5.6 | –7.5 | –5.6 |
| Tourism | 1,306.0 | 1,265.3 | 822.3 | 883.2 | 2,128.3 | 2,148.5 |
| All other segments | –0.9 | –50.6 | 376.8 | 373.8 | 375.9 | 323.2 |
| Consolidation | – | – | –454.7 | –451.9 | –454.7 | –451.9 |
| **Continuing operations** | **1,305.1** | **1,214.7** | **744.4** | **805.1** | **2,049.5** | **2,019.8** |
| Discontinued operations | 85.6 | 135.2 | 65.1 | 64.1 | 150.7 | 199.3 |
| **Total** | **1,390.7** | **1,349.9** | **809.5** | **869.2** | **2,200.2** | **2,219.1** |

## OTHER SEGMENTAL INFORMATION

| € million | Amortisation(+)/ write-backs (–) of intangible assets and depreciation(+)/ write-backs (–) of property, plant and equipment and investments 2015/16 | 2014/15 | Thereof impairments (+)/ write-backs (–) 2015/16 | 2014/15 | Share of result of joint ventures and associates 2015/16 | 2014/15 | Capital expenditure 2015/16 | 2014/15 restated |
|---|---|---|---|---|---|---|---|---|
| Northern Region | 94.2 | 105.9 | 1.3 | 4.9 | 22.4 | 23.7 | 86.4 | 69.9 |
| Central Region | 22.7 | 28.2 | 0.1 | 4.4 | 3.1 | 3.1 | 20.6 | 23.6 |
| Western Region | 25.8 | 20.3 | 6.6 | 0.4 | 0.6 | – | 21.6 | 23.5 |
| Hotels & Resorts | 95.0 | 113.0 | 2.5 | 26.0 | 57.7 | 44.0 | 262.3 | 173.3 |
| Cruises | 19.3 | 17.1 | – | – | 100.1 | 68.1 | 10.7 | 88.5 |
| Other Tourism | 60.7 | 64.7 | 7.8 | 23.2 | 3.3 | 4.1 | 101.0 | 102.2 |
| **Tourism** | **317.7** | **349.2** | **18.3** | **58.9** | **187.2** | **143.0** | **502.6** | **481.0** |
| All other segments | 89.3 | 71.0 | 0.9 | 0.6 | – | – | 20.8 | 45.7 |
| **Continuing operations** | **407.0** | **420.2** | **19.2** | **59.5** | **187.2** | **143.0** | **523.4** | **526.7** |
| Discontinued operations | 70.9 | 132.5 | 16.9 | 50.1 | 0.3 | 0.6 | 82.2 | 75.3 |
| **Total** | **477.9** | **552.7** | **36.1** | **109.6** | **187.5** | **143.6** | **605.6** | **602.0** |

## RECONCILIATION OF CAPITAL EXPENDITURE

| € million | 2015/16 | 2014/15 restated |
|---|---|---|
| **Capital expenditure** | **605.6** | **602.0** |
| Debt financed investments | – | 211.0 |
| Finance leases | 315.5 | 477.4 |
| Advance payments | 91.8 | 224.4 |
| Additions to the group of consolidated companies | 2.7 | 8.6 |
| Additions to discontinued operations | –20.6 | – |
| **Additions to other intangible assets and property, plant and equipment** | **995.0** | **1,523.4** |

## KEY FIGURES BY REGION

| € million | External turnover by customer 2015/16 | 2014/15 | Thereof external turnover from discontinued operations 2015/16 | 2014/15 | Non-current assets 2015/16 | 2014/15 | Thereof non-current assets from discontinued operations 2015/16 | 2014/15 |
|---|---|---|---|---|---|---|---|---|
| Germany | 5,125.4 | 5,033.0 | 87.2 | 131.9 | 615.2 | 581.3 | 0.3 | – |
| Great Britain | 6,356.6 | 6,824.3 | 641.8 | 785.1 | 2,000.3 | 2,054.7 | 178.0 | 11.4 |
| Spain | 232.3 | 483.4 | 112.6 | 369.1 | 470.0 | 604.4 | – | – |
| Other Europe | 6,276.1 | 6,148.4 | 342.8 | 287.9 | 456.3 | 499.3 | 55.7 | – |
| North and South America | 1,038.6 | 972.8 | 835.8 | 716.0 | 401.5 | 533.8 | 71.5 | – |
| Rest of the world | 477.2 | 619.4 | 301.4 | 275.8 | 488.3 | 462.9 | 48.2 | – |
| **Total** | **19,506.2** | **20,081.3** | **2,321.6** | **2,565.8** | **4,431.6** | **4,736.4** | **353.7** | **11.4** |

# Notes to the consolidated income statement

The Group's earnings position showed strong growth in financial year 2015 / 16. Operating growth was primarily driven by the continued strong business performance of Northern Region, Hotels & Resorts and Cruises. Additionally, the improvement of the Group profit was driven by the profit on the sale of the Hotelbeds Group.

## (1) Turnover

Group turnover is mainly generated from tourism services. A breakdown of turnover by segments is shown under segment reporting.

## (2) Cost of sales and administrative expenses

Cost of sales relates to the expenses incurred in the provision of tourism services. In addition to expenses for personnel, depreciation, amortisation, rental and leasing, it includes all costs incurred by the Group in connection with the provision and delivery of airline services, hotel accommodation, cruises and distribution costs.

Administrative expenses comprise all expenses incurred in connection with activities by the administrative functions and break down as follows:

**ADMINISTRATIVE EXPENSES**

| € million | **2015 / 16** | 2014 / 15 restated |
|---|---|---|
| Staff cost | 697.6 | 737.3 |
| Lease, rental and leasing expenses | 60.5 | 60.2 |
| Depreciation, amortisation and impairments | 64.3 | 79.9 |
| Others | 394.5 | 475.2 |
| **Total** | **1,216.9** | **1,352.6** |

In the prior year, administrative expenses were impacted by impairment of VAT claims in an Italian subsidiary and a provision for litigation in connection with the acquisition of a Turkish hotel. In financial year 2015 / 16, similar expenses did not recur so that administrative expenses declined year-on-year. Moreover, the prior year reference period included higher expenses for reorganisation and restructuring measures, in particular the rationalisation of the corporate head office, changes in source market organisation and the aggregation of the airlines. In addition, the merger between TUI AG and TUI Travel PLC created synergies in the period under review, which caused a decline in administrative expenses. Administrative expenses also declined due to the development of exchange rates.

The cost of sales and administrative expenses include the following expenses for rent and leasing, personnel and depreciation / amortisation:

**LEASE, RENTAL AND LEASING EXPENSES**

| € million | 2015 / 16 | 2014 / 15 restated |
|---|---|---|
| **Lease, rental and leasing expenses** | **817.0** | **854.2** |
| thereof cost of sales | 756.5 | 794.0 |
| thereof administrative expenses | 60.5 | 60.2 |

Where rental and lease expenses for operating leases are directly related to the turnover generating activities, these expenses are shown under the cost of sales. However, where rental and lease expenses are incurred in respect of administrative buildings, they are shown under administrative expenses.

The year-on-year decline in lease, rental and leasing expenses is mainly driven by exchange rate movements and primarily relates to leasing expenses for aircraft. Moreover, lease payments for cruise ships declined year-on-year due to the acquisition of Europa 2, which had still been leased in the first quarter of the previous year.

**STAFF COSTS**

| € million | 2015 / 16 | 2014 / 15 restated |
|---|---|---|
| Wages and salaries | 1,846.7 | 1,869.7 |
| thereof cost of sales | 1,268.8 | 1,265.9 |
| thereof administrative expenses | 577.9 | 603.8 |
| Social security contributions, pension costs and benefits | 425.3 | 435.7 |
| thereof cost of sales | 305.6 | 302.2 |
| thereof administrative expenses | 119.7 | 133.5 |
| **Total** | **2,272.0** | **2,305.4** |

Pension costs include service cost for defined benefit obligations. The net interest expense from the defined benefit obligations is included under financial expenses due to its financing nature. A detailed presentation of pension obligations is provided in Note 31.

The year-on-year decline in staff costs in financial year 2015 / 16 mainly results from foreign exchange effects and higher expenses posted in the prior year in connection with restructuring measures. Moreover, expenses for share-based payments, carried under administrative expenses, declined year-on-year due to changes in the structure of the remuneration models and the development of the share price. On the other hand, some staff costs rose year-on-year in operating areas, in particular in airlines and hotels, causing a slight overall increase in the cost of sales.

The average annual headcount (excluding apprentices) developed as follows:

AVERAGE ANNUAL HEADCOUNT IN THE FINANCIAL YEAR (EXCL. APPRENTICES)

| | **2015/16** | 2014/15 restated |
|---|---|---|
| Average annual – Continuing operations | 57,331 | 57,486 |
| Average annual – Discontinued operations | 11,887 | 13,856 |
| **Total** | **69,218** | **71,342** |

DEPRECIATION/AMORTISATION/IMPAIRMENT

| € million | **2015/16** | 2014/15 restated |
|---|---|---|
| Depreciation and amortisation | 390.7 | 360.6 |
| thereof cost of sales | 327.5 | 282.4 |
| thereof administrative expenses | 63.2 | 78.2 |
| Impairment of other intangible assets and property, plant and equipment | 17.3 | 58.3 |
| thereof cost of sales | 16.2 | 56.6 |
| thereof administrative expenses | 1.1 | 1.7 |
| **Total** | **408.0** | **418.9** |

Depreciation and amortisation include the amortisation of other intangible assets, depreciation of property, plant and equipment as well as write-downs of investment property. The uniform Group-wide useful lives underlying depreciation and amortisation and the principles for impairment are outlined under Accounting and measurement in the Notes.

The addition of property, plant and equipment in the prior year, in particular seven aircraft and the cruise ship Europa 2, caused an increase in depreciation and amortisation, carried under cost of sales. This trend was further reinforced by further additions in the financial year under review, including an aircraft and the cruise ship TUI Discovery. Depreciation and amortisation also rose due to investments in hotels and software.

Impairments of property, plant and equipment mainly relate to impairments of trademarks of € 6.1 m and impairments of software of € 7.8 m.

In the prior year, impairments mainly comprised impairments of € 26.4 m on property, plant and equipment in Tenuta di Castelfalfi S.p.A. and an impairment charge of € 24.9 m for software.

## (3) Other income / other expenses

OTHER INCOME/OTHER EXPENSES

| € million | **2015/16** | 2014/15 restated |
|---|---|---|
| Other income | 36.3 | 42.9 |
| Other expenses | 7.4 | 5.7 |
| **Total** | **28.9** | **37.2** |

In financial year 2015 / 16, other income mainly results from the sale of a Riu Group hotel, from the sale of a joint venture and from the sale of the cruise ship Island Escape. Income was also generated from the sale of commercial real estate owned by Preussag Immobilien GmbH, Salzgitter, and the sale of vehicles owned by incoming agencies.

Other income recognised in the prior year mainly related to gains from the sale of a Riu Group hotel and from the sale of two Greek hotel companies as well as to the sale of companies in the PEAK Adventure Travel Group and the sale of two Specialist Group hotels. Income was also generated from the recycling of cumulative foreign exchange gains previously carried in equity outside profit and loss resulting from a capital reduction in a subsidiary.

Other expenses recognised in financial year 2015 / 16 mainly relates to disposals of aircraft spare parts and the recycling of foreign exchange losses in connection with capital restructuring.

Other expenses recognised in the prior year mainly resulted from foreign exchange losses in connection with capital reductions and liquidations of subsidiaries and from book losses on the sale of aircraft assets.

## (4) Goodwill impairment

In financial year 2015 / 16, as in the prior year, the impairment tests conducted in accordance with IAS 36 did not result in any goodwill impairments for TUI Group's cash generating units.

## (5) Financial income

FINANCIAL INCOME

| € million | **2015 / 16** | 2014 / 15 restated |
|---|---|---|
| Income from non-consolidated Group companies including income from profit transfer agreements | 1.4 | 1.6 |
| Income from other investments | 1.0 | 1.5 |
| **Income from investments** | **2.4** | **3.1** |
| Other interest and similar income | 19.5 | 18.6 |
| Income from the measurement of hedges | 1.0 | 1.0 |
| **Interest income** | **20.5** | **19.6** |
| Income from the measurement of other financial instruments | 4.1 | 3.9 |
| Foreign exchange gains on financial items | 31.5 | 9.2 |
| **Total** | **58.5** | **35.8** |

## (6) Financial expenses

FINANCIAL EXPENSES

| € million | 2015/16 | 2014/15 restated |
|---|---|---|
| Net interest expenses from defined benefit pension plans | 27.6 | 34.4 |
| Other interest and similar expenses | 159.9 | 150.6 |
| Expenses relating to the measurement of hedges | 12.5 | 17.2 |
| **Interest expenses** | **200.0** | **202.2** |
| Expenses relating to the measurement of the investment in Hapag-Lloyd AG | 100.3 | 147.1 |
| Expenses relating to the measurement of other financial instruments | 4.0 | 6.2 |
| Foreign exchange losses on financial items | 41.6 | 9.0 |
| **Total** | **345.9** | **364.5** |

The year-on-year increase in other interest and similar expenses is attributable to changes in the structure of financial liabilities. After the balance sheet date, TUI AG's bond with a nominal value of € 300.0 m was redeemed ahead of its due date at a redemption price of 102.25 %. Interest expenses therefore rose in the financial year under review. They also increased due to the rise in liabilities from finance leases. An opposite trend was driven by the conversion of all convertible bonds in financial year 2014/15.

The other financial expenses primarily comprise the measurement of the stake in Hapag-Lloyd AG, shown in a separate line. The measurement of the stake effected in the course of the year at the closing rate of the Hapag-Lloyd share as at 31 March 2016 in the principal market Xetra at € 16.10 per share with a fair value of € 234.0 m resulted in an impairment of € 100.3 m, carried in financial expenses (Level 1 measurement). The subsequent increase in the value driven by the rise in Hapag-Lloyd's share price to € 18.29 as at 30 September 2016 and the resulting increase in fair value to € 265.8 m was carried in equity outside profit and loss, in line with IAS 39. As a result, the impairment charge carried in financial expenses remains at € 100.3 m. For more detailed information, we refer to Note 18.

In the prior year, expenses for the measurement of other financial instruments also resulted from the measurement of the stake in Hapag-Lloyd AG at fair value (previous year Level 3 measurement).

## (7) Share of results of joint ventures and associates

SHARE OF RESULT OF JOINT VENTURES AND ASSOCIATES

| € million | 2015/16 | 2014/15 restated |
|---|---|---|
| Income from associated companies measured at equity | 25.3 | 35.3 |
| Expenses for associated companies measured at equity | 0.1 | 7.0 |
| **Share of result of associates** | **25.2** | **28.3** |
| Income from joint ventures measured at equity | 163.0 | 124.1 |
| Expenses for joint ventures measured at equity | 1.0 | 8.5 |
| **Share of result of joint ventures** | **162.0** | **115.6** |
| **Total** | **187.2** | **143.9** |

The share of result of joint ventures and associates comprises the net profit for the year attributable to the associated companies and joint ventures.

The year-on-year decline in income from associated companies measured at equity is attributable to the Canadian tour operator Sunwing. Due to the fall of the Canadian dollar versus the US dollar, Sunwing recorded an increase in direct costs and a resulting decline in its results versus the prior year. Offsetting this, a Caribbean hotel company which had still posted a negative profit contribution in the prior year reported a positive contribution in the period under review.

The increase in income from joint ventures mainly results from the improvement in the operating performance of Riu Hotels as well as the sound performance of TUI Cruises and the first-time full-year operation of Mein Schiff 4 and the launch of Mein Schiff 5 in July 2016.

Expenses for joint ventures declined year-on-year as the negative profit contributions of two Greek hotel companies did not reoccur since these companies were sold in Q3 2014/15.

In the financial year under review, the share of results of joint ventures and associates did not include any impairments, consistent with the prior year.

## (8) Income taxes

**BREAKDOWN OF INCOME TAXES**

| € million | **2015/16** | 2014/15 restated |
|---|---|---|
| Current tax expense | | |
| in Germany | 39.5 | 16.2 |
| abroad | 125.1 | 140.3 |
| Deferred tax income | –11.2 | –98.3 |
| **Total** | **153.4** | **58.2** |

The increase in current income tax expenses in Germany is attributable to the reassessment of the trade tax risk in hotel purchasing, which resulted in tax expenses of € 35.1 m related to prior periods in the financial year under review. In terms of income taxes in the rest of the world, countries outside Germany posted tax income related to prior periods, unlike in 2014/15. Overall, current tax expenses related to prior periods amount to € 9.9 m (previous year € 14.8.) in financial year 2014/15.

Deferred tax assets mainly arose abroad, outside of Germany. In the prior year, deferred tax assets for losses carried forward were re-measured following the merger between TUI AG and TUI Travel PLC, resulting in tax assets of € 114.2 in the prior year reference period.

In financial year 2015 / 16, total income taxes of € 153.4 m (previous year € 58.2 m) were derived from an "expected" income tax expense that would have arisen if the statutory income tax rate of TUI AG as the parent company (aggregate income tax rate) had been applied to earnings before tax as follows:

**RECONCILIATION OF EXPECTED TO ACTUAL INCOME TAXES**

| € million | **2015 / 16** | 2014 / 15 restated |
|---|---|---|
| Earnings before income taxes | 618.3 | 465.8 |
| **Expected income tax (current year 31.5 %, previous year 31.0 %)** | **194.8** | **144.4** |
| Variation from the difference between actual and expected tax rates | – 27.0 | – 34.9 |
| Changes in tax rates and tax law | – 26.1 | – 3.3 |
| Income not taxable | –114.6 | –125.3 |
| Expenses not deductible | 101.8 | 157.6 |
| Effects from loss carryforwards | 31.3 | –113.4 |
| Temporary differences for which no deferred taxes were recognised | –1.0 | 6.8 |
| Deferred and current tax relating to other periods (net) | –11.1 | 25.3 |
| Other differences | 5.3 | 1.0 |
| **Income taxes** | **153.4** | **58.2** |

In the prior year, the effects from losses carried forward included the revaluation of German losses carried forward from the enlargement of the fiscal unity in Germany. An offsetting effect arose from impairments of deferred tax assets on losses carried forward in the UK.

## (9) Result from discontinued operation

The result from discontinued operations includes the after-tax results of Specialist Group, Hotelbeds Group and LateRooms Group, classified as discontinued operations. For further information, please refer to the section "Discontinued operations" within "Acquisitions – Divestments – Discontinued operations".

## (10) Group profit for the year attributable to shareholders of TUI AG

The share of Group profit attributable to the TUI AG shareholders improved from € 340.4 m in the prior year to € 1,037.4 m in financial year 2015 / 16. Apart from the general improvement in the Group's performance, the increase is attributable to the disposal of Hotelbeds Group (for more details, please refer to the section on Discontinued operations). The year-on-year increase in the share in Group profit attributable to TUI AG shareholders is also driven by the fact that non-controlling interests in TUI Travel PLC were only held until the merger between TUI AG and TUI Travel PLC in December 2014.

## (11) Group profit for the year attributable to non-controlling interest

GROUP PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTEREST

| € million | 2015/16 | 2014/15 |
|---|---|---|
| Central Region | 0.3 | 2.3 |
| Hotels & Resorts | 111.2 | 88.8 |
| Other Tourism | 0.2 | 0.1 |
| Tourism | 111.7 | 91.2 |
| Specialist Group | –0.1 | –3.1 |
| Hotelbeds Group | 3.4 | 2.0 |
| All other segments | –0.2 | –0.3 |
| Formerly Travel (TUI Travel PLC – Group) | – | –50.6 |
| **Total** | **114.8** | **39.2** |

In Hotels & Resorts, Group profit for the year attributable to non-controlling interests primarily relates to RIUSA II Group. In the prior year, the segment structure was slightly changed. The non-controlling interests carried in the line "Formerly Travel" in the prior year comprise the prorated losses of the former TUI Travel PLC sub-group until the acquisition of the shares in TUI Travel PLC held by non-controlling interests by TUI AG in December 2014. Since the merger between TUI AG and TUI Travel PLC in December 2014, there have no longer been any non-controlling interests in the former TUI Travel PLC sub-group.

## (12) Earnings per share

In accordance with IAS 33, basic earnings per share are calculated by dividing the Group profit for the year attributable to TUI AG shareholders by the weighted average number of registered shares outstanding during the financial year under review. The average number of shares is derived from the total number of shares at the beginning of the financial year (586,603,217 shares) and the employee shares issued on a pro rata temporis basis (179,486 new shares). The prorated effect of the own shares held by an employee benefit trust of 2,664,194 shares was deducted.

In the prior year, the dividend on the hybrid capital was deducted from Group profit for the year attributable to shareholders of TUI AG until the call date on 24 March 2015 since the hybrid capital represented equity until the call date but did not constitute Group profit attributable to TUI AG shareholders.

EARNINGS PER SHARE

| | | 2015/16 | 2014/15 restated |
|---|---|---|---|
| Group profit for the year attributable to shareholders of TUI AG | € million | 1,037.4 | 340.4 |
| Dividend effect on hybrid capital | € million | – | –10.9 |
| = Adjusted Group profit for the year attributable to shareholders of TUI AG | € million | 1,037.4 | 329.5 |
| Weighted average number of shares | | 584,118,509 | 513,114,716 |
| **Basic earnings per share** | € | **1.78** | **0.64** |
| – Basic earnings per share from continuing operations | € | 0.61 | 0.66 |
| – Basic earnings per share from discontinued operations | € | 1.17 | –0.02 |

DILUTED EARNINGS PER SHARE

| | | 2015/16 | 2014/15 restated |
|---|---|---|---|
| Adjusted Group profit for the year attributable to shareholders of TUI AG | € million | 1,037.4 | 329.5 |
| Weighted average number of shares | | 584,118,509 | 513,114,716 |
| Diluting effect from assumed exercise of share awards | | 1,522,934 | 6,384,006 |
| Weighted average number of shares (diluted) | | 585,641,443 | 519,498,722 |
| **Diluted earnings per share** | € | **1.77** | **0.63** |
| – Diluted earnings per share from continuing operations | € | 0.60 | 0.65 |
| – Diluted earnings per share from discontinued operations | € | 1.17 | – 0.02 |

As a rule, a dilution of earnings per share occurs when the average number of shares increases due to the issue of shares from conversion of share options. In the financial year under review, these effects resulted from share-based remuneration plans. The conversion rights existing in prior years fully expired in financial year 2014/15.

## (13) Taxes attributable to other results

TAX EFFECTS RELATING TO OTHER COMPREHENSIVE INCOME

| | | | 2015/16 | | | 2014/15 |
|---|---|---|---|---|---|---|
| € million | Gross | Tax effect | Net | Gross | Tax effect | Net |
| Foreign exchange differences | 52.4 | – | 52.4 | – 221.7 | – | – 221.7 |
| Available for sale financial instruments | 31.8 | – | 31.8 | – | – | – |
| Cash flow hedges | 546.1 | – 80.9 | 465.2 | – 221.0 | 27.1 | –193.9 |
| Remeasurements of pension provisions and related fund assets | – 593.3 | 157.9 | – 435.4 | 82.2 | – 24.2 | 58.0 |
| Changes in the measurement of companies measured at equity outside profit or loss | – 32.0 | – | – 32.0 | 22.1 | – | 22.1 |
| **Other comprehensive income** | **5.0** | **77.0** | **82.0** | **– 338.4** | **2.9** | **– 335.5** |

In addition, income taxes worth € – 0.9 m (previous year € 17.7 m) carried outside profit and loss were generated in the period under review and recognised directly in equity.

# Notes on the consolidated statement of financial position

## (14) Goodwill

GOODWILL

| € million | **2015 / 16** | 2014 / 15 |
|---|---|---|
| **Historical cost** | | |
| **Balance as at 1 Oct** | **3,678.8** | **3,590.6** |
| Exchange differences | – 234.3 | 95.6 |
| Additions | 9.2 | 1.6 |
| Disposals* | – | – |
| Reclassification as assets held for sale | –167.0 | – 9.0 |
| **Balance as at 30 Sep** | **3,286.7** | **3,678.8** |
| **Impairment** | | |
| **Balance as at 1 Oct** | **458.4** | **454.4** |
| Exchange differences | – 25.0 | 3.9 |
| Disposals* | – | – |
| Reclassification as assets held for sale | – 0.2 | 0.1 |
| **Balance as at 30 Sep** | **433.2** | **458.4** |
| **Carrying amounts as at 30 Sep** | **2,853.5** | **3,220.4** |

* Of which no disposals from changes in the group of consolidated companies

The decrease in the carrying amount is mainly attributable to the translation of goodwill not carried in the TUI Group's functional currency into euros and recognition of the Hotelbeds Group and Specialist Group segments as discontinued operations. In Q1 2015 / 16, incoming agencies (Destination Services) were carved out from the Hotelbeds Group segment and transferred to Other Tourism. They are carried as a separate cash-generating unit.

In accordance with the rules of IAS 21, goodwill allocated to the individual segments and sectors was recognised in the functional currency of the subsidiaries and subsequently translated when preparing the consolidated financial statements. As with the treatment of other differences from the translation of annual financial statements of foreign subsidiaries, differences due to exchange rate movements between the exchange rate at the date of acquisition of the subsidiary and the exchange rate at the balance sheet date are taken directly to equity outside profit and loss and are disclosed as a separate item. In financial year 2015 / 16, a decrease in the carrying amount of goodwill of € 209.3 m (previous year increase of € 91.7 m) resulted from foreign exchange differences.

The following table provides a breakdown of the carrying amounts of goodwill by cash generating unit (CGU):

**GOODWILL PER CASH GENERATING UNIT**

| € million | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|
| Northern Region | 1,545.1 | 1,736.1 |
| Central Region | 507.7 | 505.7 |
| Western Region | 338.8 | 338.4 |
| Specialist Group | – | 70.5 |
| Hotelbeds Group | – | 202.1 |
| Destination Services | 94.3 | – |
| Riu | 351.7 | 351.7 |
| Robinson | 9.7 | 9.7 |
| TUI Blue | 6.2 | 6.2 |
| **Total** | **2,853.5** | **3,220.4** |

Impairment charges are recognised if the carrying amount of the tested unit plus the allocated goodwill exceeds the recoverable amount. In the financial year under review, goodwill was tested for impairment at the level of cash generating units (CGUs) as at 30 June 2016.

For all cash generating units, the recoverable amount was determined on the basis of fair value less costs of disposal. The fair value was determined by discounting expected future cash inflows. This was based on the budget for Q4 of the financial year under review, the medium-term plan for the entity under review, prepared as at 30 September 2016, after deduction of income tax payments. Budgeted turnover and EBITA margins are based on observed values from prior financial years and expectations with regard to the future development of the market. The cash inflows after the planning period are extrapolated on the basis of individual growth rates based on long-term business expectations.

The discount rates are calculated as the weighted average cost of capital, taking account of the risks associated with the cash generating unit on the basis of external capital market information. The cost of equity included in the calculation reflects the return expected by investors. The cost of borrowing is derived from the long-term financing terms of comparable companies in the peer group.

The table below provides an overview of the assumptions used for determining the fair values per CGU. It shows the timeframe for the cash flow forecast, the growth rates used to extrapolate the cash flow forecast, and the relevant valuation hierarchy according to IFRS 13. The table lists the main cash generating units to which goodwill has been allocated.

**ASSUMPTIONS FOR CALCULATION OF FAIR VALUE IN FINANCIAL YEAR 2015/16**

| | Planning period in years | Growth rate revenues in % | EBITA-Margin in % | Growth rate after planning period in % | WACC in % | Level |
|---|---|---|---|---|---|---|
| Northern Region | 3.25 | 8.3 | 7.2 | 0.5 | 6.75 | 3 |
| Central Region | 3.25 | 7.1 | 2.3 | 0.5 | 6.75 | 3 |
| Western Region | 3.25 | 7.8 | 3.4 | 0.5 | 6.75 | 3 |
| Destination Services | 3.25 | 8.2 | 7.3 | 0.5 | 6.75 | 3 |
| Riu | 3.25 | 3.7 | 31.2 | 0.5 | 5.75 | 3 |
| Robinson | 3.25 | 17.2 | 14.9 | 0.5 | 5.75 | 3 |
| TUI Blue | 3.25 | 93.1 | 12.8 | 0.5 | 5.75 | 3 |

**ASSUMPTIONS FOR CALCULATION OF FAIR VALUE IN FINANCIAL YEAR 2014/15**

| | Planning period in years | Growth rate revenues in % | EBITA-Margin in % | Growth rate after planning period in % | WACC in % | Level |
|---|---|---|---|---|---|---|
| Northern Region | 3.25 | 4.3 | 6.8 | 0.5 | 7.25 | 3 |
| Central Region | 3.25 | 8.2 | 2.8 | 0.5 | 7.25 | 3 |
| Western Region | 3.25 | 9.3 | 3.1 | 0.5 | 7.25 | 3 |
| Riu | 3.25 | 2.4 | 24.1 | 0.5 | 6.75 | 3 |
| Robinson | 3.25 | 17.9 | 17.3 | 0.5 | 6.75 | 3 |
| Iberotel | 3.25 | 5.9 | 18.4 | 0.5 | 6.75 | 3 |
| Specialist Group | 3.25 | 2.3 | 2.8 | 0.5 | 7.25 | 3 |
| Hotelbeds Group | 3.25 | 11.3 | 6.0 | 0.5 | 7.25 | 3 |

Goodwill was tested for impairment as at 30 June 2016. The test did not result in a requirement to recognise an impairment. Neither an increase in WACC of 50 basis points nor a reduction in the growth rate in perpetuity of 50 basis points would have led to an impairment of goodwill. The same applies to a decrease of revenue growth rates and EBITA-margin in perpetuity by 10 % each.

## (15) Other intangible assets

**OTHER INTANGIBLE ASSETS**

| € million | Concessions, industrial property rights and similar rights and values | Selfgenerated software | Transport and leasing contracts | Customer base | Payments on account | **Total** |
|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | |
| **Balance as at 1 Oct 2014** | **1,276.0** | **142.1** | **107.1** | **252.5** | **0.4** | **1,778.1** |
| Exchange differences | 48.8 | 4.8 | 6.4 | 6.4 | – | 66.4 |
| Additions due to changes in the group of consolidated companies | 0.8 | – | – | 0.2 | – | 1.0[1] |
| Additions | 165.7 | 23.9 | – | 1.6 | 0.3 | 191.5 |
| Disposals | 35.4 | 17.0 | – | 2.2 | – | 54.6[2] |
| Reclassification as assets held for sale | –73.1 | –44.7 | – | –3.6 | – | –121.4 |
| Reclassifications | –111.9 | 114.4 | –3.0 | 0.7 | –0.2 | – |
| **Balance as at 30 Sep 2015** | **1,270.9** | **223.5** | **110.5** | **255.6** | **0.5** | **1,861.0** |
| Exchange differences | –90.6 | –20.0 | –10.4 | –6.5 | – | –127.5 |
| Additions due to changes in the group of consolidated companies | 0.7 | – | – | 0.4 | – | 1.1 |
| Additions | 146.7 | 6.1 | – | 0.3 | 2.5 | 155.6 |
| Disposals | 104.5 | 4.6 | – | 1.6 | – | 110.7 |
| Reclassification as assets held for sale | –408.5 | –33.6 | –7.1 | –199.0 | – | –648.2 |
| Reclassifications | –128.3 | 128.8 | – | – | –0.5 | – |
| **Balance as at 30 Sep 2016** | **686.4** | **300.2** | **93.0** | **49.2** | **2.5** | **1,131.3** |
| **Amortisation** | | | | | | |
| **Balance as at 1 October 2014** | **626.6** | **57.4** | **37.7** | **122.9** | **–** | **844.6** |
| Exchange differences | 20.4 | 1.9 | 2.1 | 3.5 | – | 27.9 |
| Amortisation for the current year | 96.5 | 27.9 | 0.5 | 18.2 | – | 143.1 |
| Impairments for the current year | 7.2 | 29.2 | – | – | – | 36.4 |
| Disposals | 29.0 | 17.0 | – | 2.2 | – | 48.2 |
| Reclassification as assets held for sale | –27.5 | –25.0 | – | –1.8 | – | –54.3 |
| Reclassifications | –35.8 | 31.6 | 4.2 | – | – | – |
| **Balance as at 30 Sep 2015** | **658.4** | **106.0** | **44.5** | **140.6** | **–** | **949.5** |
| Exchange differences | –43.6 | –6.6 | –5.4 | –4.0 | – | –59.6 |
| Amortisation for the current year | 74.1 | 31.4 | 4.7 | 11.1 | – | 121.3 |
| Impairments for the current year | 22.9 | 8.0 | – | – | – | 30.9 |
| Disposals | 100.0 | 4.3 | – | 1.6 | – | 105.9 |
| Reclassification as assets held for sale | –210.1 | –19.5 | –5.2 | –115.9 | – | –350.7 |
| Reclassifications | –11.0 | 6.3 | 4.7 | – | – | – |
| **Balance as at 30 Sep 2016** | **390.7** | **121.3** | **43.3** | **30.2** | **–** | **585.5** |
| **Carrying amounts as at 30 Sep 2015** | **612.5** | **117.5** | **66.0** | **115.0** | **0.5** | **911.5** |
| **Carrying amounts as at 30 Sep 2016** | **295.7** | **178.9** | **49.7** | **19.0** | **2.5** | **545.8** |

[1] Of which additions due to first-time consolidation of non-consolidated companies € 0.2 m
[2] Of which disposals due to changes in the group of consolidated companies of € 1.5 m (historical costs) and € 0.8 m (amortisation)

Other intangible assets, consisting in particular of trademarks and customer relationships, are amortised over their useful lives.

Self-generated software consists of computer programs for tourism applications exclusively used internally by the Group.

The decrease in the carrying amount of the intangible assets compared to the prior year is mainly attributable to the reclassification of the segments Hotelbeds Group and Specialist Group to assets held for sale.

The increase in disposals is driven by the implementation of new software in the Northern Region segment. The software previously used and fully amortised was therefore derecognised.

Impairments include an amount of € 9.7 m in respect of the Specialist Group brands, required due to the sale of businesses in the course of the year. In addition, brands in the Western Region segment worth € 6.1 m were impaired as they are no longer in use due to the adoption of the Group's new brand strategy. Impairments also included software worth € 6.3 m in Specialist Group and a module of an Internet platform worth € 7.8 m in Other Tourism, as they are no longer used.

The prior year's impairments of € 21.8 m relate to various modules of an Internet platform for joint use in Northern, Western and Central Regions.

At the balance sheet date, the carrying amount of intangible assets subject to restraints on ownership or pledged as security amounts to €nil (previous year € 109.1 m).

## (16) 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 Oct 2014** | **1,333.1** | **255.4** | **1,160.3** |
| Exchange differences | –11.7 | –1.5 | 77.0 |
| Additions due to changes in the group of consolidated companies | 6.5 | – | – |
| Additions | 41.9 | 42.0 | 525.9 |
| Disposals | 1.5 | 8.9 | 42.2 |
| Reclassification as assets held for sale | 6.9 | –0.7 | –45.0 |
| Reclassifications | 26.3 | –4.8 | 58.4 |
| **Balance as at 30 Sep 2015** | **1,401.5** | **281.5** | **1,734.4** |
| Exchange differences | –32.5 | –17.6 | –24.1 |
| Additions due to changes in the group of consolidated companies | – | – | – |
| Additions | 48.1 | 55.8 | 145.4 |
| Disposals | 5.6 | 25.7 | 43.4 |
| Reclassification as assets held for sale | – | –67.3 | –5.7 |
| Reclassifications | 25.4 | 4.7 | 28.5 |
| **Balance as at 30 Sep 2016** | **1,436.9** | **231.4** | **1,835.1** |
| **Depreciation** | | | |
| **Balance as at 1 Oct 2014** | **383.4** | **95.3** | **524.6** |
| Exchange differences | –3.6 | 3.7 | 13.8 |
| Depreciation for the current year | 38.8 | 6.6 | 101.0 |
| Impairments for the current year | 0.2 | 19.8 | 0.6 |
| Disposals | 1.1 | 6.4 | 35.6 |
| Reclassification as assets held for sale | 1.4 | –0.1 | –36.0 |
| Reclassifications | 11.2 | –7.6 | – |
| **Balance as at 30 Sep 2015** | **430.3** | **111.3** | **568.4** |
| Exchange differences | –10.4 | 0.9 | –21.0 |
| Depreciation for the current year | 37.7 | 5.7 | 123.4 |
| Impairments for the current year | – | 1.3 | – |
| Disposals | 4.4 | 17.4 | 37.7 |
| Reclassification as assets held for sale | – | –28.4 | –0.6 |
| Reclassifications | 4.8 | 2.6 | 0.6 |
| **Balance as at 30 Sep 2016** | **458.0** | **76.0** | **633.1** |
| **Carrying amounts as at 30 Sep 2015** | **971.2** | **170.2** | **1,166.0** |
| **Carrying amounts as at 30 Sep 2016** | **978.9** | **155.4** | **1,202.0** |

[1] Of which additions due to first-time consolidation of non-consolidated companies of € 0.2 m

[2] Of which disposals due to changes in the group of consolidated companies of € 0.8 m (historical cost) and € 0.7 m (depreciation), respectively

| Ships, yachts and boats | Machinery and fixtures | Other plants, operating and office equipment revised | Assets under construction | Payments on account | **Total** |
|---|---|---|---|---|---|
| | | | | | |
| **788.4** | **254.9** | **985.8** | **65.2** | **221.7** | **5,064.8** |
| 29.3 | –1.1 | 1.0 | 1.1 | 16.5 | 110.6 |
| – | – | 1.1 | – | – | 7.6 [1] |
| 314.9 | 23.7 | 83.0 | 59.7 | 232.2 | 1,323.3 |
| 24.6 | 4.7 | 65.8 | 4.0 | 236.4 | 388.1 [2] |
| – | – | –14.5 | –6.5 | –7.6 | –67.4 |
| 2.1 | 4.2 | 16.2 | –60.5 | –50.6 | –8.7 |
| **1,110.1** | **277.0** | **1,006.8** | **55.0** | **175.8** | **6,042.1** |
| –61.5 | –1.9 | –27.4 | –2.8 | –9.2 | –177.0 |
| – | – | 1.6 | – | – | 1.6 |
| 228.0 | 26.6 | 77.0 | 157.7 | 98.1 | 836.7 |
| 156.2 | 6.2 | 107.1 | 1.7 | 43.1 | 389.0 |
| –246.0 | – | –90.8 | –2.0 | – | –411.8 |
| 20.1 | 9.1 | –25.9 | –48.1 | –11.5 | 2.3 |
| **894.5** | **304.6** | **834.2** | **158.1** | **210.1** | **5,904.9** |
| | | | | | |
| **355.6** | **180.8** | **681.4** | **–** | **–** | **2,221.1** |
| 13.7 | –0.6 | 1.0 | – | – | 28.0 |
| 52.8 | 15.1 | 85.8 | – | – | 300.1 |
| 2.9 | 4.8 | 0.4 | 2.2 | – | 30.9 |
| 19.2 | 4.4 | 56.9 | 1.7 | – | 125.3 |
| – | – | –10.5 | –0.5 | – | –45.7 |
| –2.4 | –1.5 | –3.5 | – | – | –3.8 |
| **403.4** | **194.2** | **697.7** | **0.0** | **–** | **2,405.3** |
| –14.1 | –1.1 | –18.7 | – | – | –64.4 |
| 58.7 | 19.3 | 78.8 | – | – | 323.6 |
| – | 0.7 | 0.7 | – | – | 2.7 |
| 144.8 | 6.1 | 101.1 | – | – | 311.5 |
| –82.7 | – | –56.0 | – | – | –167.7 |
| –0.3 | 13.1 | –18.2 | –0.2 | – | 2.4 |
| **220.2** | **220.1** | **583.2** | **–0.2** | **–** | **2,190.4** |
| **706.7** | **82.8** | **309.1** | **55.0** | **175.8** | **3,636.8** |
| **674.3** | **84.5** | **251.0** | **158.3** | **210.1** | **3,714.5** |

The decrease in the carrying amount of property, plant and equipment compared to the prior year is mainly attributable to the reclassification of the segments Hotelbeds Group and Specialist Group to assets held for sale.

In the reporting period, additions included the cruise ship TUI Discovery with a carrying amount of € 182.9 m held as a finance lease. The ship is operated in the Northern Region segment. In the prior year, additions of ships included Europa 2 in the Cruise segment worth € 278.2 m.

Moreover, one aircraft, operated under a finance lease, was capitalised in the amount of € 120.2 m in the period under review. In addition, advance payments for aircraft ordered amounting to € 91.8 m were capitalised.

Additions to assets under construction included investments in hotel facilities in Hotels & Resorts worth € 100.9 m.

In the prior year, impairment charges mainly related to buildings and technical systems at Tenuta di Castelfalfi S.p.A. in Hotels & Resorts.

All investment property was sold in the course of the financial year. For materiality reasons, the development of these assets is therefore shown under Other real estate, land rights and buildings incl. buildings on third-party properties. In the prior year, these assets had a carrying amount of € 7.2 m and a fair value of € 10.1 m.

As at the balance sheet date, the carrying amount of tangible assets subject to ownership restrictions or pledged as security totals € 613.1 m (previous year € 700.4 m).

Property, plant and equipment also comprise leased assets in which Group subsidiaries have assumed substantially all the risks and rewards of ownership of the assets.

**COMPOSITION OF FINANCE LEASED ASSETS**

| | Net carrying amounts | |
|---|---|---|
| € million | **30 Sep 2016** | 30 Sep 2015 |
| Other real estate, land rights and buildings incl. buildings on third-party properties | 14.8 | 24.2 |
| Aircraft | 955.0 | 871.0 |
| Ships, yachts and boats | 232.5 | 96.3 |
| Machinery and fixtures | – | 0.1 |
| Other plant, operating and office equipment | 27.7 | 18.4 |
| **Total** | **1,230.0** | **1,010.0** |

The payment obligations resulting from future lease payments are carried as liabilities, with future interest expenses not reflected in the carrying amount of the financial liabilities. Total payments due under finance leases amount to € 1,450.1 m (previous year € 1,216.6 m). Group companies have not accepted any guarantees for the residual values of the leased assets, as in the prior year.

RECONCILIATION OF FUTURE LEASE PAYMENTS TO LIABILITIES FROM FINANCE LEASES

| | 30 Sep 2016 | | | | 30 Sep 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Remaining term | | | | Remaining term | | | |
| € million | up to 1 year | 1–5 years | more than 5 years | **Total** | up to 1 year | 1–5 years | more than 5 years | Total |
| Total future lease payments | 125.7 | 462.4 | 862.0 | 1,450.1 | 103.3 | 396.4 | 716.9 | 1,216.6 |
| Interest portion | 33.5 | 113.4 | 71.5 | 218.4 | 34.4 | 115.8 | 84.4 | 234.6 |
| Liabilities from finance leases | 92.2 | 349.0 | 790.5 | 1,231.7 | 68.9 | 280.6 | 632.5 | 982.0 |

## (17) Investments in joint ventures and associates

The table below presents the TUI Group's significant joint arrangements and associates. All joint arrangements and associates are shown in the list of TUI Group Shareholdings in Note 55. All joint arrangements are joint ventures. There are no joint operations within the definition of IFRS 12.

SIGNIFICANT ASSOCIATES AND JOINT VENTURES

| Name and headquarter of company | Nature of business | Capital share in % 30 Sep 2016 | Capital share in % 30 Sep 2015 | Voting rights share in % 30 Sep 2016 | Voting rights share in % 30 Sep 2015 |
|---|---|---|---|---|---|
| **Associates** | | | | | |
| Sunwing Travel Group Inc., Toronto, Canada | Tour operator | 49.0 | 49.0 | 25.0 | 25.0 |
| Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados | Hotel operator | –* | 49.0 | –* | 49.0 |
| **Joint ventures** | | | | | |
| Riu Hotels S.A., Palma de Mallorca, Spain | Hotel operator | 49.0 | 49.0 | 49.0 | 49.0 |
| TUI Cruises GmbH, Hamburg, Germany | Cruise ship operator | 50.0 | 50.0 | 50.0 | 50.0 |
| Togebi Holdings Limited, Nicosia, Cyprus | Tour operator | 25.0 | 49.0 | 25.0 | 49.0 |

*Since 30 Sep 2016 shares are held by Sunwing Travel Group Inc., Toronto, Canada.

All companies shown in the table are accounted for using the equity method.

The financial years of Sunwing Travel Group Inc. and Blue Diamond Hotels and Resorts Inc. correspond to the TUI Group's financial year. The financial years of the other associates and joint ventures end on 31 December of each year. In order to update at equity measurement as at the TUI Group's balance sheet date, interim financial statements for the period ending 30 September are prepared for these companies.

### SIGNIFICANT ASSOCIATES

In 2009, the Sunwing Travel Group entered into a partnership with TUI Group. Sunwing Travel Group Inc. is a vertically integrated travel company that encompasses tour operators, an airline and retail travel agencies. The company has different classes of shares. TUI Group holds 25 % of the voting shares.

Blue Diamond Hotels & Resorts Inc., a hotel operation and development company operating a chain of luxury beach holiday resorts and hotels in the Caribbean and Mexico, was carried as an associate and measured at equity in the prior year. In September 2016, the company was transferred to Sunwing Travel Group and therefore no longer constituted a direct associate as at the balance sheet date.

### SIGNIFICANT JOINT VENTURES

Riu Hotels S.A. is a hotel company established in 1976, which owns and operates 4- to 5-star hotels, mainly located in Spain and Central America.

TUI Cruises was established in 2008, and is a joint venture with the US shipping line Royal Caribbean Cruises Ltd. The Hamburg-based company offers German-speaking cruises for the premium market. Since the commissioning of Mein Schiff 5 in July 2016, TUI Cruises has operated five cruise ships.

Togebi Holdings Limited (TUI Russia) is a joint venture with Oscrivia Limited, a subsidiary of the Russian ZAO Sever Group (ZSG). ZSG is owned by a large shareholder and member of the supervisory board of TUI AG. The business purpose of this joint venture, established in 2009, is to develop the tour operation business, in particular in Russia and Ukraine. The company owns tour operator subsidiaries and retail chains in these countries.

### CHANGES IN THE GROUP'S INTEREST IN SIGNIFICANT JOINT VENTURES

In the prior year, the TUI Group held a stake of 49.0 % in TUI Russia. In October 2015, contractual agreements on the reorganisation of the equity of TUI Russia were concluded with Oscrivia Limited. The parties agreed a capital increase in which TUI Group participated by paying a net amount of $ 3 m, while Oscrivia Limited paid a net amount of $ 17 m. TUI Group's share in TUI Russia declined from 49 % to 25 % and Oscrivia Limited increased its share to 75 %. Existing loans and guarantees of the shareholders were adjusted to reflect the new stakes. Furthermore, the joint venture agreement was amended to reflect the new voting rights proportions. The relevant activities of TUI Russia continue to be jointly determined by TUI Group and Oscrivia Limited, so that TUI Russia remains classified as a joint venture.

### FINANCIAL INFORMATION ON ASSOCIATES AND JOINT VENTURES

The following tables provide summarised financial information for the significant associates and joint ventures of the TUI Group. The information disclosed reflects the full amounts presented in the consolidated financial statements of the relevant associates and joint ventures (100 per cent) and not TUI Group's share of those amounts.

**COMBINED FINANCIAL INFORMATION OF MATERIAL ASSOCIATES**

| | Sunwing Travel Group Inc., Toronto, Canada[3] | | Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados[2] | |
|---|---|---|---|---|
| € million | **30 Sep 2016 / 2015 / 16** | 30 Sep 2015 / 2014 / 15 | **30 Sep 2016 / 2015 / 16** | 30 Sep 2015 / 2014 / 15 |
| Non-current assets | 736.5 | 163.1 | – | 314.7 |
| Current assets | 491.5 | 368.9 | – | 84.1 |
| Non-current provisions and liabilities | 386.3 | 44.9 | – | 114.9 |
| Current provisions and liabilities | 421.9 | 285.7 | – | 170.8 |
| Revenues | 1,432.6 | 1,557.3 | 264.8 | 201.9 |
| Profit / loss[1] | 11.6 | 45.2 | 48.3 | 17.5 |
| Other comprehensive income | 4.5 | – | – | –1.6 |
| **Total comprehensive income** | **16.1** | **45.2** | **48.3** | **15.9** |

1 Solely from continuing operations
2 Since 30 Sep 2016 shares are held by Sunwing Travel Group Inc., Toronto, Canada
3 The balance sheet at 30 Sep 2016 also contains the balances of the Blue Diamonds Hotels and Resorts Inc., St. Michael, Barbados, as well as other entities, which were transferred to the Sunwing Travel Group at the balance sheet date.

## COMBINED FINANCIAL INFORMATION OF MATERIAL JOINT VENTURES

| € million | Riu Hotels S.A., Palma de Mallorca, Spain | | TUI Cruises GmbH, Hamburg, Germany | | Togebi Holdings Limited, Nicosia, Cypres | |
|---|---|---|---|---|---|---|
| | **30 Sep 2016/ 2015/16** | 30 Sep 2015/ 2014/15 | **30 Sep 2016/ 2015/16** | 30 Sep 2015/ 2014/15 | **30 Sep 2016/ 2015/16** | 30 Sep 2015/ 2014/15 |
| Non-current assets | 739.8 | 829.7 | 2,049.0 | 1,569.4 | 3.9 | 5.2 |
| Current assets | 79.5 | 72.1 | 379.5 | 195.7 | 27.1 | 19.0 |
| thereof cash and cash equivalents | 26.8 | 27.4 | 105.5 | 109.0 | 3.4 | 3.4 |
| Non-current provisions and liabilities | 13.3 | 101.7 | 1,234.8 | 860.4 | 117.3 | 157.0 |
| thereof financial liabilities | 9.0 | 73.2 | 1,234.8 | 860.4 | 114.6 | 146.1 |
| Current provisions and liabilities | 148.3 | 160.6 | 614.1 | 367.9 | 27.2 | 35.5 |
| thereof financial liabilities | 82.2 | 104.6 | – | – | 18.6 | 27.3 |
| Turnover | 305.7 | 276.9 | 807.3 | 614.1 | 129.5 | 200.9 |
| Depreciation of intangible assets and property, plant and equipment | 21.1 | 24.9 | 58.1 | 42.0 | 1.3 | 4.7 |
| Interest income | 0.2 | 0.1 | – | 5.8 | – | – |
| Interest expenses | 1.7 | 2.6 | 16.2 | 11.4 | 4.7 | 5.0 |
| Income taxes | 36.7 | 26.1 | 0.3 | – | 0.1 | – |
| Profit/loss* | 92.5 | 70.9 | 200.2 | 136.2 | 9.2 | –44.1 |
| Other comprehensive income | –36.4 | 69.1 | –37.8 | –22.6 | – | – |
| **Total comprehensive income** | **56.1** | **140.0** | **162.4** | **113.6** | **9.2** | **–44.1** |

* Solely from continuing operations

In financial year 2015/16, TUI Group received dividends of € 60.0 m from TUI Cruises and € 12.2 m from Riu Hotels. In total, dividends of € 79.4 m were paid by all joint ventures to TUI Group (previous year € 76.4 m, including € 34.3 m from Riu Hotels and € 35.0 m from TUI Cruises). In financial year 2015/16 as well as in the prior year, TUI Group did not receive any dividends from its major associates; in total, TUI Group received dividends of € 1.1 m from its associates (previous year € 2.6 m).

In addition to the material associates and joint ventures, TUI Group has interests in a number of equity accounted associates and joint ventures that are individually not considered significant. The tables below provide information on TUI Group's share of the profit/loss, other income and other comprehensive income of the material associates and joint ventures as well as the aggregated amount of the share of these earnings figures for the immaterial associates and joint ventures.

## SHARE OF FINANCIAL INFORMATION OF MATERIAL AND OTHER ASSOCIATES

| € million | Sunwing Travel Group Inc., Toronto, Canada | | Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados | | Other associates | | Associates Total | |
|---|---|---|---|---|---|---|---|---|
| | **2015/16** | 2014/15 | **2015/16** | 2014/15 | **2015/16** | 2014/15 restated | **2015/16** | 2014/15 restated |
| TUI's share of | | | | | | | | |
| Profit/loss | 5.7 | 22.1 | 23.7 | 8.6 | –4.2 | –2.4 | 25.2 | 28.3 |
| Other comprehensive income/loss | 4.5 | – | – | –0.8 | – | 0.7 | 4.5 | –0.1 |
| Total comprehensive income/loss | 10.2 | 22.1 | 23.7 | 7.8 | –4.2 | –1.7 | 29.7 | 28.2 |

SHARE OF FINANCIAL INFORMATION OF MATERIAL AND OTHER VENTURES

| € million | Riu Hotels S.A., Palma de Mallorca, Spain | | TUI Cruises GmbH, Hamburg, Germany | | Togebi Holdings Limited, Nicosia, Cypres | | Other joint ventures | | Joint ventures Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015/16** | 2014/15 | **2015/16** | 2014/15 | **2015/16** | 2014/15 | **2015/16** | 2014/15 | **2015/16** | 2014/15 |
| TUI's share of | | | | | | | | | | |
| Profit/loss | 45.3 | 34.7 | 100.1 | 68.1 | – | – | 16.6 | 12.8 | 162.0 | 115.6 |
| Other comprehensive income/loss | –18.1 | 33.6 | –18.7 | –11.3 | – | – | – | –0.8 | –36.8 | 21.5 |
| Total comprehensive income/loss | 27.2 | 68.3 | 81.4 | 56.8 | – | – | 16.6 | 12.0 | 125.2 | 137.1 |

NET ASSETS OF THE MATERIAL ASSOCIATES

| € million | Sunwing Travel Group Inc., Toronto, Canada[2] | Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados[1] |
|---|---|---|
| **Net assets as at 1 Oct 2014** | **170.4** | **87.0** |
| Profit/loss | 45.2 | 17.5 |
| Other comprehensive income | – | –1.6 |
| Dividends | – | – |
| Capital increase | – | – |
| Foreign exchange effects | –14.2 | 10.2 |
| **Net assets as at 30 Sep 2015** | **201.4** | **113.1** |
| **Net assets as at 1 Oct 2015** | **201.4** | **113.1** |
| Profit/loss | 11.6 | 48.3 |
| Other comprehensive income | 9.2 | – |
| Dividends payable | – | – |
| Capital increase | – | 60.4 |
| Foreign exchange effects | 0.9 | – |
| Consolidation effects | 196.7 | –221.8 |
| **Net assets as at 30 Sep 2016** | **419.8** | **–** |

[1] Since 30 Sep 2016 shares are held by Sunwing Travel Group Inc., Toronto, Canada.
[2] The net assets at 30 Sep 2016 also contain the balances of the Blue Diamonds Hotels and Resorts Inc., St. Michael, Barbados, which was transferred to the Sunwing Travel Group at the balance sheet date, as well as other transferred entities.

## RECONCILIATION TO THE CARRYING AMOUNT OF THE ASSOCIATES IN THE GROUP BALANCE SHEET

| € million | Sunwing Travel Group Inc., Toronto, Canada[2] | Blue Diamond Hotels and Resorts Inc., St. Michael, Barbados[1] | Other associates | Associates total restated |
|---|---|---|---|---|
| Share of TUI in % as at 30 Sep 2015 | 49.0 | 49.0 | – | – |
| TUI's share of the net assets as at 30 Sep 2015 | 98.7 | 55.4 | 25.5 | 179.6 |
| Goodwill as at 30 Sep 2015 | 50.1 | – | 4.0 | 54.1 |
| **Carrying value as at 30 Sep 2015** | **148.8** | **55.4** | **29.5** | **233.7** |
| Share of TUI in % as at 30 Sep 2016 | 49.0 | – | – | – |
| TUI's share of the net assets as at 30 Sep 2016 | 205.7 | – | 50.9 | 256.6 |
| Goodwill as at 30 Sep 2016 | 51.3 | – | 4.0 | 55.3 |
| **Carrying value as at 30 Sep 2016** | **257.0** | **–** | **54.9** | **311.9** |

1 Since 30 Sep 2016 shares are held by Sunwing Travel Group Inc., Toronto, Canada.
2 The balance sheet at 30 Sep 2016 also contains the balances of the Blue Diamonds Hotels and Resorts Inc., St. Michael, Barbados, which was transferred to the Sunwing Travel Group at the balance sheet date.

## NET ASSETS OF THE MATERIAL JOINT VENTURES

| € million | Riu Hotels S.A., Palma de Mallorca, Spain | TUI Cruises GmbH, Hamburg, Germany | Togebi Holdings Limited, Nicosia, Cyprus |
|---|---|---|---|
| **Net assets as at 1 Oct 2014** | **564.5** | **493.2** | **–107.7** |
| Profit/loss | 70.9 | 136.2 | –44.1 |
| Other comprehensive income | 69.1 | –22.6 | – |
| Dividends | –70.0 | –70.0 | – |
| Capital increase | – | – | – |
| Foreign exchange effects | 3.2 | – | –16.7 |
| **Net assets as at 30 Sep 2015** | **637.7** | **536.8** | **–168.5** |
| **Net assets as at 1 Oct 2015** | **637.7** | **536.8** | **–168.5** |
| Profit/loss | 92.5 | 200.2 | 9.2 |
| Other comprehensive income | –36.4 | –37.8 | –0.2 |
| Dividends payable | –25.0 | –120.0 | – |
| Capital increase | – | – | 48.3 |
| Foreign exchange effects | –12.5 | – | –2.3 |
| **Net assets as at 30 Sep 2016** | **656.3** | **579.2** | **–113.5** |

**RECONCILIATION TO THE CARRYING AMOUNT OF THE JOINT VENTURES IN THE GROUP BALANCE SHEET**

| € million | Riu Hotels S.A., Palma de Mallorca, Spain | TUI Cruises GmbH, Hamburg, Germany | Togebi Holdings Limited, Nicosia, Cyprus | Other joint ventures | Joint ventures total |
|---|---|---|---|---|---|
| Share of TUI in % as at 30 Sep 2015 | 49.0 | 50.0 | 49.0 | – | – |
| TUI's share of the net assets as at 30 Sep 2015 | 312.7 | 268.4 | –82.6 | 228.1 | 726.6 |
| unrecognised share of losses | – | – | 39.9 | – | 39.9 |
| Goodwill as at 30 Sep 2015 | 1.7 | – | 42.7 | 33.2 | 77.6 |
| **Carrying value as at 30 Sep 2015** | **314.4** | **268.4** | **–** | **261.3** | **844.1** |
| Share of TUI in % as at 30 Sep 2016 | 49.0 | 50.0 | 25.0 | – | – |
| TUI's share of the net assets as at 30 Sep 2016 | 321.6 | 289.6 | –28.4 | 228.4 | 811.2 |
| unrecognised share of losses | – | – | 6.5 | – | 6.5 |
| Goodwill as at 30 Sep 2016 | 1.7 | – | 21.9 | 27.6 | 51.2 |
| **Carrying value as at 30 Sep 2016** | **323.3** | **289.6** | **–** | **256.0** | **868.9** |

### UNRECOGNISED LOSSES BY JOINT VENTURES

Unrecognised accumulated losses of € 6.5 m (previous year € 39.9 m) relate to the joint venture TUI Russia, operating in the source markets of Russia and Ukraine. Due to the recognition of the share of losses in the previous years the carrying amount of the joint venture was already fully written off in financial year 2013 / 14. Further losses of € 39.9 m have not been recognised in the previous years as the TUI Group has no obligation to cover the losses. Recognition of these losses would have reduced the carrying amount of the joint venture to below zero. The decline of the unrecognised proportional losses of € 33.4 m in the reporting period are mainly due to the reduction of the interest and the capital increase in TUI Russia.

### RISKS ASSOCIATED WITH THE STAKES IN ASSOCIATES AND JOINT VENTURES

No contingent liabilities existed in respect of associates as at 30 September 2016 and 30 September 2015.

Contingent liabilities of € 106.2 m (previous year € 125.4 m) exist in respect of joint ventures. In addition, financial liabilities from investments of € 613.2 m (previous year € 877.2 m) and from lease, charter and rental agreements worth € 8.4 m (previous year € 9.3 m) are in place in respect of joint ventures.

## (18) Financial assets available for sale

Financial assets available for sale consist of stakes in non-consolidated Group companies, interests and other securities.

**FINANCIAL ASSETS AVAILABLE FOR SALE**

| | **30 Sep 2016** | | 30 Sep 2015 | |
|---|---|---|---|---|
| € million | Remaining term more than 1 year | **Total** | Remaining term more than 1 year | Total |
| Shares in non-consolidated Group companies | 2.1 | 2.1 | 5.9 | 5.9 |
| Investments | 36.3 | 302.1 | 38.5 | 373.4 |
| Other securities | 12.0 | 12.0 | 11.8 | 11.8 |
| **Total** | **50.4** | **316.2** | **56.2** | **391.1** |

Investments comprise the remaining interests in Hapag-Lloyd AG totalling € 265.8 m. An IPO of Hapag-Lloyd AG took place on 6 November 2015. TUI's interest in Hapag-Lloyd AG declined from 13.9 % to 12.3 % due to non-participation in the associated cash capital increase and the sale of 27,079 Hapag-Lloyd AG shares as part of the IPO.

The shares in Hapag-Lloyd AG are traded in the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange. The investment is measured at the closing rate of the Hapag-Lloyd share in the principal market Xetra at the respective balance sheet date (Level 1 measurement). The measurement of the stake effected in the course of the year at the closing rate of the Hapag-Lloyd share as at 31 March 2016 in the principal market Xetra at € 16.10 per share with a fair value of € 234.0 m resulted in an impairment of € 100.3 m, carried in financial expenses. Since then, Hapag-Lloyd's share price has risen to € 18.29 as at 30 September 2016 so that the fair value has again risen to € 265.8 m. This increase of € 31.8 m in the value was carried in equity outside profit and loss, in line with IAS 39. As a result, the impairment charge carried in financial expenses remains at € 100.3 m.

On 30 September 2016, TUI AG entered into an agreement to close the gap between the obligations and the fund assets of defined benefit pension plans in the UK in the long run. All shares in Hapag-Lloyd AG were assigned as collateral at the balance sheet date. In October 2016, a securities account has been opened and the number of shares assigned as collateral has declined. In future, every quarter end it will be determined as a quotient of £ 126 m to the share price translated into pounds sterling and reduced by a safety margin of 10 %. The agreement does not prevent TUI from selling the shares.

The impairment of financial assets held for sale, carried in the consolidated income statement for the period under review, totalled € 101.0 m (previous year € 155.6 m).

Where a listed market price in an active market is not available and other methods to determine an objective market value do not produce any reliable results, the shares are measured at cost.

## (19) Trade receivables and other assets

**TRADE RECEIVABLES AND OTHER ASSETS**

| € million | 30 Sep 2016<br>Remaining term more than 1 year | 30 Sep 2016<br>Total | 30 Sep 2015<br>Remaining term more than 1 year | 30 Sep 2015<br>Total |
|---|---|---|---|---|
| Trade receivables | – | 429.5 | – | 740.1 |
| Advances and loans | 220.5 | 831.9 | 243.2 | 1,086.5 |
| Other receivables and assets | 94.8 | 374.0 | 89.3 | 454.6 |
| **Total** | **315.3** | **1,635.4** | **332.5** | **2,281.2** |

The decrease in trade receivables and other assets results primarily from the sale of Hotelbeds Group.

**AGEING STRUCTURE OF THE FINANCIAL INSTRUMENTS INCLUDED IN TRADE RECEIVABLES AND OTHER ASSETS**

| € million | Carrying amount of financial instruments | of which not impaired but overdue | of which not impaired and overdue in the following periods: less than 30 days | between 30 and 90 days | between 91 and 180 days | more than 180 days |
|---|---|---|---|---|---|---|
| **Balance as at 30 Sep 2016** | | | | | | |
| Trade receivables | 429.5 | 176.0 | 119.3 | 24.3 | 15.7 | 16.7 |
| Advances and loans | 75.5 | 18.5 | 17.4 | 0.1 | – | 1.0 |
| Other receivables and assets | 184.7 | 21.2 | 11.4 | 2.7 | 1.1 | 6.0 |
| **Total** | **689.7** | **215.7** | **148.1** | **27.1** | **16.8** | **23.7** |
| **Balance as at 30 Sep 2015** | | | | | | |
| Trade receivables | 740.1 | 190.0 | 94.1 | 66.0 | 15.1 | 14.8 |
| Advances and loans | 118.5 | 17.7 | – | 0.7 | 0.3 | 16.7 |
| Other receivables and assets | 206.1 | 18.2 | 12.2 | 3.9 | 0.4 | 1.7 |
| **Total** | **1,064.7** | **225.9** | **106.3** | **70.6** | **15.8** | **33.2** |

For financial assets which are neither overdue nor impaired, the TUI Group assumes that the borrower concerned has a good credit standing.

As at 30 September 2016, trade receivables and other assets worth € 62.7 m (previous year € 99.7 m) were impaired. The table below provides a maturity analysis of the impairments.

**AGEING STRUCTURE OF IMPAIRMENT OF FINANCIAL INSTRUMENTS INCLUDED IN TRADE RECEIVABLES AND OTHER ASSETS**

| | **30 Sep 2016** | | | 30 Sep 2015 | | |
|---|---|---|---|---|---|---|
| € million | **Gross value** | **Impairment** | **Net value** | Gross value | Impairment | Net value |
| **Trade receivables and other assets** | | | | | | |
| Not overdue | 478.8 | 4.8 | 474.0 | 859.7 | 20.9 | 838.8 |
| Overdue up to 30 days | 149.9 | 1.8 | 148.1 | 107.1 | 0.8 | 106.3 |
| Overdue 30 – 90 days | 30.1 | 3.0 | 27.1 | 75.9 | 5.3 | 70.6 |
| Overdue 91 – 180 days | 18.8 | 2.0 | 16.8 | 22.3 | 6.5 | 15.8 |
| Overdue more than 180 days | 74.8 | 51.1 | 23.7 | 99.4 | 66.2 | 33.2 |
| **Total** | **752.4** | **62.7** | **689.7** | **1,164.4** | **99.7** | **1,064.7** |

Impairments of trade receivables and other assets developed as follows:

**IMPAIRMENT ON ASSETS OF THE TRADE RECEIVABLES AND OTHER ASSETS CATEGORY ACCORDING TO IFRS 7**

| € million | **2015/16** | 2014/15 |
|---|---|---|
| **Balance at the beginning of period** | **99.7** | **100.3** |
| Additions | 10.5 | 16.1 |
| Disposals | 23.1 | 5.9 |
| Other changes | –24.4 | –10.8 |
| **Balance at the end of period** | **62.7** | **99.7** |

In financial year 2015/16 as well as in the prior year no cash inflow was recorded from impaired interest-bearing trade receivables and other assets.

Trade receivables, advances and loans as well as other receivables and assets comprise the following items:

**TRADE RECEIVABLES**

| € million | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|
| From third parties | 415.4 | 712.4 |
| From non-consolidated Group companies | 1.7 | 1.5 |
| From affiliates | 12.4 | 26.2 |
| **Total** | **429.5** | **740.1** |

**ADVANCES AND LOANS**

| | **30 Sep 2016** | | 30 Sep 2015 | |
|---|---|---|---|---|
| € million | Remaining term more than 1 year | **Total** | Remaining term more than 1 year | Total |
| Advances to non-consolidated Group companies | 0.4 | 17.8 | 0.4 | 17.4 |
| Advances to affiliates | 6.2 | 6.4 | 0.1 | 0.9 |
| Loans to affiliates | 9.6 | 9.6 | 39.6 | 40.7 |
| Advances to third parties | 11.0 | 35.9 | 1.4 | 24.5 |
| Loans to third parties | 34.6 | 38.1 | 34.9 | 36.4 |
| Payments on account to affiliates | 5.4 | 10.9 | 3.0 | 11.7 |
| Payments on account to third parties | 153.3 | 713.2 | 163.8 | 954.9 |
| **Total** | **220.5** | **831.9** | **243.2** | **1,086.5** |

Payments on account mainly relate to advance payments for future tourism services, in particular future hotel services payable by tour operators, which is customary in the industry.

OTHER RECEIVABLES AND ASSETS

| € million | 30 Sep 2016 Remaining term more than 1 year | 30 Sep 2016 Total | 30 Sep 2015 Remaining term more than 1 year | 30 Sep 2015 Total |
|---|---|---|---|---|
| Other receivables from non-consolidated Group companies | 1.5 | 1.6 | 1.5 | 1.7 |
| Other receivables from affiliates | – | 6.6 | 6.2 | 18.0 |
| Interest deferral | – | 1.2 | – | 1.9 |
| Other tax refund claims | 15.4 | 81.6 | 9.9 | 90.4 |
| Defined benefit asset | 36.2 | 36.2 | 15.2 | 15.2 |
| Other assets | 41.7 | 246.8 | 56.5 | 327.4 |
| **Total** | **94.8** | **374.0** | **89.3** | **454.6** |

## (20) Derivative financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS

| € million | 30 Sep 2016 Remaining term more than 1 year | 30 Sep 2016 Total | 30 Sep 2015 Remaining term more than 1 year | 30 Sep 2015 Total |
|---|---|---|---|---|
| Third party receivables from derivative financial instruments | 126.8 | 671.4 | 48.1 | 329.1 |

Derivative financial instruments are included at their fair value (market value). They are mainly used to hedge our future operating business and their nature is detailed in the explanatory information on financial instruments.

## (21) Deferred and income tax assets

The measurement of deferred and income taxes is detailed in the section “Accounting and measurement methods”.

INCOME TAX ASSETS

| € million | 30 Sep 2016 | 30 Sep 2015 |
|---|---|---|
| Deferred tax assets | 344.7 | 330.7 |
| Income tax assets | 87.7 | 58.5 |
| **Total** | **432.4** | **389.2** |

Deferred income tax assets include € 328.7 m (previous year € 287.6 m) that is expected to be realised after more than twelve months.

INDIVIDUAL ITEMS OF DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED IN THE FINANCIAL POSITION

| | 30 Sep 2016 | | 30 Sep 2015 | |
|---|---|---|---|---|
| € million | **Asset** | **Liability** | Asset | Liability |
| Finance lease transactions | 2.2 | – | – | 2.2 |
| Recognition and measurement differences for property, plant and equipment and other non-current assets | 67.6 | 231.9 | 110.7 | 317.7 |
| Recognition differences for receivables and other assets | 23.1 | 62.4 | 4.4 | 40.0 |
| Measurement of financial instruments | 21.4 | 64.5 | 53.5 | 22.1 |
| Measurement of pension provisions | 253.5 | 0.1 | 143.2 | 0.8 |
| Recognition and measurement differences for other provisions | 63.1 | 32.0 | 67.4 | 14.1 |
| Other transactions | 85.1 | 54.8 | 64.1 | 80.8 |
| Capitalised tax savings from recoverable losses carried forward | 211.5 | – | 239.4 | – |
| Netting of deferred tax assets and liabilities | –382.8 | –382.8 | –352.0 | –352.0 |
| **Balance sheet amount** | **344.7** | **62.9** | **330.7** | **125.7** |

No deferred tax assets are recognised for deductible temporary differences of €157.3 m (previous year €128.2 m).

No deferred tax liabilities are recognised for temporary differences of €58.6 m (previous year €49.5 m) between the net assets and the respective taxable carrying amounts of subsidiaries since these temporary differences are not expected to be reversed in the near future.

RECOGNISED LOSSES CARRIED FORWARD AND TIME LIMITS FOR NON-RECOGNISED LOSSES CARRIED FORWARD

| € million | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|
| **Recognised losses carried forward** | **1,041.0** | **1,184.4** |
| **Non-recognised losses carried forward** | **4,654.5** | **4,449.8** |
| of which losses carried forward forfeitable within one year | 4.4 | 2.7 |
| of which losses carried forward forfeitable within 2 to 5 years | 83.0 | 62.3 |
| of which losses carried forward forfeitable within more than 5 years (excluding non-forfeitable loss carryforwards) | 1.8 | 6.0 |
| Non-forfeitable losses carried forward | 4,565.3 | 4,378.8 |
| **Total unused losses carried forward** | **5,695.5** | **5,634.2** |

Losses carried forward for German companies comprise the cumulative amount of trade tax and corporation tax as well as interest carried forward in relation to the German interest barrier. Potential tax savings totalling €981.7 m (previous year €907.2 m) were not capitalised since the use of the underlying losses carried forward is unlikely to be utilised within the planning period.

In the financial year 2015/16, the use of losses carried forward previously assessed as non-recoverable and for which no deferred tax asset had been recognised as at 30 September 2015 led to tax reductions of €10.7 m (previous year €24.0 m). As in the prior year, no tax reductions were realised by means of losses carried back.

| DEVELOPMENT OF DEFERRED TAX ASSETS FROM LOSSES CARRIED FORWARD | | |
|---|---|---|
| € million | **2015 / 16** | 2014 / 15 |
| **Capitalised tax savings at the beginning of the year** | **239.4** | **135.0** |
| Use of losses carried forward | –15.3 | –14.4 |
| Capitalisation of tax savings from tax losses carried forward | 6.7 | 150.1 |
| Write-down of capitalised tax savings from tax losses carried forward | –13.7 | – 36.1 |
| Reclassification to discontinued operation | – 4.8 | – 0.3 |
| Exchange adjustments and other items | – 0.8 | 5.1 |
| **Capitalised tax savings at financial year-end** | **211.5** | **239.4** |

Capitalised deferred tax assets from temporary differences and losses carried forward that are assessed as recoverable of € 4.9 m (previous year € 203.3 m) are covered by expected future taxable income even for companies that generated losses in the period under review or the prior year.

## (22) Inventories

| INVENTORIES | | |
|---|---|---|
| € million | **30 Sep 2016** | 30 Sep 2015 |
| Marine inventory | – | 33.2 |
| Airline spares and operating equipment | 24.9 | 28.6 |
| Real estate for sale | 39.0 | 32.8 |
| Other inventories | 41.3 | 39.9 |
| **Total** | **105.2** | **134.5** |

Other inventories included an amount of € 16.1 m for consumables used in hotels (previous year € 16.6 m).

No major reversals of inventory provisions were recognised in the financial year 2015 / 16, nor in the prior year.

The decline in the amount of inventories is mainly driven by the reclassification of the inventories related to Specialist Group to Assets held for sale.

## (23) Cash and cash equivalents

| CASH AND CASH EQUIVALENTS | | |
|---|---|---|
| € million | **30 Sep 2016** | 30 Sep 2015 |
| Bank deposits | 2,037.6 | 1,641.8 |
| Cash in hand and cheques | 35.3 | 30.9 |
| **Total** | **2,072.9** | **1,672.7** |

At 30 September 2016, cash and cash equivalents of € 128.6 m (previous year € 198.5 m) was subject to restriction on disposal. This included an amount of € 116.4 m for cash collateral received, which was deposited in a Belgian subsidiary by the Belgian tax authorities in the financial year 2012 / 13 relating to long-standing litigation over VAT refunds for the years 2001 to 2011. Without prejudice to the outcome, the purpose was to suspend the accrual of interest for both parties. In order to collateralise a potential repayment, the Belgian government was granted a bank guarantee. Due to the bank guarantee, TUI Group's ability to dispose of the cash and cash equivalents has been restricted.

## (24) Assets held for sale

**ASSETS HELD FOR SALE**

| € million | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|
| Discontinued Operation Specialist Group | 928.9 | – |
| Discontinued Operation LateRooms Group | – | 38.8 |
| Property and hotel facilities | – | 0.4 |
| Other assets | 0.9 | 3.0 |
| **Total** | **929.8** | **42.2** |

In the reporting period, the Specialist Group segment was reclassified to Assets held for sale as a discontinued operation. Assets worth € 928.9 m exist in connection with this discontinued operation as at 30 September 2016. The LateRooms Group was sold at the beginning of the financial year. For further information, refer to the section on Discontinued operations. The Hotelbeds Group segment was classified to Assets held for sale during the reporting period and sold on 12 September 2016.

## (25) Subscribed capital

The subscribed capital of TUI AG consists of no-par value shares, each representing an identical share in the capital stock. The proportionate share in the capital stock per no-par value share is around € 2.56. Since July 2005, the shares have been registered shares, whose owners have been listed by name in the share register.

The subscribed capital of TUI AG has been registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover. In the financial year under review, it rose due to the issue of 434,970 shares resulting from the issue of employee shares. Subscribed capital thus consisted of 587,038,187 shares at the end of the financial year. It increased by € 1.1 m to € 1,500.7 m. The increase recorded in the prior year was driven by a capital increase against non-cash contribution in connection with the merger between TUI AG and TUI Travel PLC and the conversion of bonds of TUI AG and TUI Travel PLC.

As at 30 September 2016, 2,664,194 shares in TUI AG were held by an employee benefit trust of TUI Travel Limited.

The Annual General Meeting on 9 February 2016 authorised the Executive Board of TUI AG to acquire own shares of up to 5 % of the capital stock. The authorisation will expire on 8 August 2017. The authorisation to acquire own shares has not been used to date.

### CONDITIONAL CAPITAL

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

Overall, TUI AG had total conditional capital of around € 150.0 m (previous year € 120.0 m) as at 30 September 2016.

### AUTHORISED CAPITAL

The Annual General Meeting of 13 February 2013 resolved new authorised capital for the issue of employee shares worth € 10.0 m. The Executive Board of TUI AG has been authorised to use this capital in one or several transactions to issue employee shares against cash contribution by 12 February 2018. 434,970 new employee shares were issued in the completed financial year so that authorised capital totals around € 8.3 m at the balance sheet date.

The General Meeting of 28 October 2014 resolved to create authorised capital to issue new shares against non-cash contribution of € 18.0 m in order to be able to service TUI Travel share awards granted by TUI Travel to its employees with new shares in TUI AG. The authorisation for this capital will expire on 27 October 2019.

The Annual General Meeting on 9 February 2016 resolved to create an authorisation for the issue of new registered shares against cash contribution of up to a maximum of € 150.0 m. The authorisation will expire on 8 February 2021.

The Annual General Meeting on 9 February 2016 also created authorised capital for the issue of new shares against cash or non-cash contribution of € 570.0 m. The issue of new shares against non-cash contribution has been limited to € 300.0 m. The authorisation for this approved capital will expire on 8 February 2021.

Unused authorised capital thus totals € 746.3 m at 30 September 2016 (previous year € 337.9 m).

## (26) Capital reserves

The capital reserves comprise transfers of premiums. They also contain amounts entitling the holders to acquire shares in TUI AG in respect of bonds issued for conversion options and warrants. Premiums from the issue of shares due to the exercise of conversion options and warrants were also transferred to the capital reserves.

In the period under review, capital reserves rose by € 4.5 m (previous year € 1.2 m) due to the issue of employee shares. In the previous year, TUI AG's capital reserves rose by € 453.4 m due to the conversion of convertible bonds and by € 2,676.8 m due to the capital increase against non-cash contribution in connection with the merger between TUI AG and TUI Travel PLC.

## (27) Revenue reserves

In the completed financial year, TUI AG paid a dividend of € 0.56 per no-par value share to its shareholders; the total amount paid was € 327.0 m (previous year € 94.5 m). In financial year 2015 / 16, non-controlling interest declined by € 13.6 m due to the payment of dividends. The year-on-year change is mainly driven by the payment of dividends to non-Group shareholders in TUI Travel PLC of € 183.0 m made before the merger between TUI AG and TUI Travel PLC. Moreover, the interest paid on the hybrid bond issued by TUI AG had to be carried as a dividend in accordance with IFRS rules until it was called on 24 March 2015.

Existing equity-settled share-based payment transactions resulted in an increase in equity of € 4.3 m. Disclosures on these long-term incentive programmes are outlined in Note 42 in the section on "Share-based payments" in accordance with IFRS 2.

Moreover, an employee share trust of TUI Travel Ltd acquired shares in TUI AG in financial year 2015 / 16 in order to use them for stock option plans. The amounts used for this purpose were offset against revenue reserves as an acquisition of non-controlling interest. Equity therefore declined by € 56.3 m. Due to the issue of shares through the stock option plans, own shares remained largely unchanged overall. The employee benefit trust now holds 2,664,194 shares in TUI AG.

Deconsolidation effects mainly resulted from the sale of Hotelbeds Group in financial year 2015 / 16. For more detailed information, refer to the section "Discontinued operations".

In financial year 2015 / 16, non-controlling interest were acquired for a consideration of € 6.5 m. The carrying amount of these interest was € 0.4 m. Acquisitions of non-controlling interest primarily included non-controlling interest in Atraveo GmbH, Düsseldorf.

In the prior year, the effects of the acquisition of non-controlling interest primarily reflected the merger between TUI AG and TUI Travel PLC. The consideration including ancillary acquisition costs for the purchase of the non-controlling interest totalled € 3,359.7 m, while the carrying amount of the acquired interest accounted for € – 606.2 m. Peak Adventure Travel Group Ltd, Australia, which was split up in the prior year, was partly carried as an acquisition of non-controlling interest. The consideration paid for the acquisition totalled € 23.4 m, while the non-controlling interest acquired totalled € 42.0 m.

Foreign exchange differences comprise differences from the translation of the financial statements of foreign subsidiaries as well as differences from the translation of goodwill denominated in foreign currencies.

Changes in financial instruments available for sale of € 31.8 m reflect the value increase from the rise in Hapag-Lloyd share prices in financial year 2015 / 16. More detailed information on the increase in fair values is provided in the section “Financial assets available for sale” in Note 18.

The proportion of gains and losses from hedges used as effective hedges of future cash flows is carried in equity in other comprehensive income outside profit and loss in an amount of € 546.1 m (before tax). A reversal of this provision through profit and loss takes place in the same period in which the hedged item has an effect on profit and loss or is no longer assessed as probable. The considerable increase recorded in financial year 2015 / 16 is mainly driven by changes in exchange rates and in fuel prices.

The re-measurement of pension obligations (in particular from actuarial gains and losses) is also included in other income in equity outside profit and loss.

The revaluation reserve formed in accordance with IAS 27 (old version) in the framework of step acquisitions of companies is retained until the date of deconsolidation of the company concerned.

## (28) Use of Group profit available for distribution

In accordance with the German Stock Corporation Act, the Annual General Meeting decides on the distribution of the profit reported in TUI AG’s annual financial statements. TUI AG’s net profit for the year totals € 139.9 m, which combined with retained profits brought forward of € 682.4 m, gives profit available for distribution of € 822.3 m. A proposal will be submitted to the Annual General Meeting to use the profit available for distribution for the financial year to pay a dividend of € 0.63 per no-par value share, estimated to be worth € 369.8 m, and carry the amount of € 452.5 m remaining after deduction of the dividend forward on new account. The final dividend total will depend on the number of dividend-bearing no-par value shares in issue at the date on which the resolution is adopted by the Annual General Meeting.

## (29) Hybrid capital

The subordinated hybrid capital issued by TUI AG in December 2005 with a nominal value of € 300.0 m was redeemed in the prior year. The borrowing costs incurred for the issue of the hybrid capital were offset against revenue reserves upon redemption.

## (30) Non-controlling interest

Non-controlling interest mainly relate to RIUSA II S.A. based in Palma de Mallorca, Spain. TUI's share in this hotel company remains at 50.0 %, as in the prior year.

The financial year of RIUSA II S.A. ends on 31 December and thus differs from TUI Group's financial year. This reporting date was determined at the creation of the company. For the preparation of the consolidated financial statements of TUI Group as at 30 September, consolidated financial statements of RIUSA II Group are prepared as at TUI Group's balance sheet date, 30 September.

RIUSA II Group, recognised within the Hotels & Resorts segment, operates owned and leased hotels and hotels operated under management contracts in tourism destinations of TUI Group. Due to the contractual agreements between the shareholders and the framework agreements with TUI Group and the importance of TUI tour operation to the economic success of RIUSA II Group, TUI Group is able to direct decisions on the most relevant activities. RIUSA II Group is therefore fully consolidated although TUI Group only holds a 50 % equity stake.

The table below provides summarised financial information for RIUSA II S.A., Palma de Mallorca, Spain, the subsidiary with material non-controlling interest. The information disclosed reflects the amounts presented in the consolidated financial statements of the sub-group.

**SUMMARISED FINANCIAL INFORMATION ON RIUSA II S.A., PALMA DE MALLORCA, SPAIN***

| € million | **30 Sep 2016 / 2015 / 16** | 30 Sep 2015 / 2014 / 15 |
|---|---|---|
| Current assets | 336.3 | 294.5 |
| Non-current assets | 1,296.5 | 1,242.1 |
| Current liabilities | 113.9 | 110.3 |
| Non-current liabilities | 22.1 | 86.4 |
| Revenues | 796.1 | 715.9 |
| Profit / loss | 221.4 | 177.2 |
| Other comprehensive income | – 42.4 | – 8.4 |
| Cash inflow / outflow from operating activities | 292.4 | 232.6 |
| Cash inflow / outflow from investing activities | –166.8 | – 99.0 |
| Cash inflow / outflow from financing activities | – 85.6 | – 64.9 |
| Accumulated non-controlling interest | 572.6 | 494.1 |
| Profit / loss attributable to non-controlling interest | 110.7 | 88.6 |
| Dividends attributable to non-controlling interest | 11.0 | 10.0 |

* Consolidated sub-group

## (31) Pension provisions and similar obligations

A number of defined contribution plans and defined benefit pension plans are operated for Group employees. Pension obligations vary, reflecting the different legal, fiscal and economic conditions in each country of operation, and usually depend on employees' length of service and pay levels.

All defined contribution plans are funded by the payment of contributions to external insurance companies or funds. German employees enjoy benefits from a statutory defined contribution plan paying pensions as a function of employees' income and the contributions paid in. Several additional industry pension organisations exist for companies of the TUI Group. Once the contributions to the state-run pension plans and private pension insurance organisations have been paid, the Company has no further payment obligations. One major private pension fund is Aegon Levensverzekering N.V. operating the defined contribution pension plans for the main Dutch subsidiaries of the TUI Group. Contributions paid are expensed for the respective period. In the period under review, the expenses for all defined contribution plans totalled € 81.9 m (previous year € 85.8 m).

Apart from these defined contribution pension plans, the TUI Group operates defined benefit plans, which usually entail the formation of provisions within the Company or investments in funds outside the Company.

Within this group, MER-Pensionskasse VVaG, a private pension fund in which German companies of the tourism industry are organised, represents a multi-employer plan classified as a defined benefit plan. In accordance with the statues of the plan, the plan participants and the employers pay salary-based contributions into the plan. There are no further obligations pursuant to the statutes of the plan; an additional funding obligation of the participating companies is explicitly excluded. The paid-in contributions are invested in accordance with the policies of the pension plan unless they are used in the short term to deliver benefits. As the investments are pooled and are not kept separately for each participating employer, an allocation of plan assets to individual participating employers is not possible. The investment risk and the mortality risk are jointly shared by all plan participants. Moreover, the pension fund does not provide any information to participating companies that would allow the allocation of any over- or underfunding or TUI's participation in the plan. For this reason, accounting for the plan in accordance with the requirements of IAS 19 is not possible, and the plan is therefore classed as a defined contribution plan. In the period under review, contributions to MER-Pensionskasse WAG totalled € 5.9 m (previous year € 5.5 m). For the next financial year, contributions are expected to remain at that level.

TUI Group's major pension plans recognised as defined benefit plans exist in Germany and the UK. By far the largest pension plans are operated by the Group's tour operators in the UK. They accounted for 74.6 % (previous year 75.3 %) of TUI Group's total obligations at the balance sheet date. German plans account for a further 21.3 % (previous year 20.2 %).

In the UK, the following major pension plans linking pension payments to final salary and length of service are operated. The final remuneration to be taken into account is capped.

**MATERIAL DEFINED BENEFIT PLANS IN GREAT BRITAIN**

| Scheme name | Status |
|---|---|
| BAL Scheme | closed |
| TUI UK Scheme | closed |
| TAPS Scheme | closed |

Almost all defined benefit plans in the UK are funded externally. Under UK law, the employer is obliged to ensure sufficient funding so that plan assets cover the pension payments to be made and the administrative costs of the funds. The pension funds are managed by independent trustees. The trustees comprise independent members but also beneficiaries of the plan and employer representatives. The trustees are responsible for the investment of fund assets, taking account of the interests of plan members, but they also negotiate the level of the contributions to the fund to be paid by the employers, which constitute minimum contributions to the funds. To that end, actuarial valuations are made every three years by actuaries commissioned by the trustees. The annual contributions to be paid to the funds in order to cover any shortfalls were last defined in September 2016. On top of a fixed annual contribution, a certain percentage of the pensionable remuneration of plan members has to be paid into the plan. In order to account for the increase in underfunding, in particular driven by the drop in interest rates, one-off payments linked to the occurrence of certain events were agreed. As a result, an additional £ 150 m (previous year € 174.2 m) were payable to the funds upon the sale of Hotelbeds Group in the period under review.

By contrast, defined benefit plans in Germany are unfunded. The company assumes the obligation for payments of company pensions when the beneficiaries reach the legal retirement age. The amount of the pension paid usually depends on the remuneration received by the staff members at the retirement date. Pension obligations usually include surviving dependants' benefits and invalidity benefits.

**MATERIAL DEFINED BENEFIT PLANS IN GERMANY**

| Scheme name | Status |
|---|---|
| Versorgungsordnung TUI AG | closed |
| Versorgungsordnung Hapag-Lloyd Fluggesellschaft GmbH | open |
| Versorgungsordnung TUI Deutschland GmbH | closed |
| Versorgungsordnung TUI Beteiligungs GmbH | closed |
| Versorgungsordnung Preussag Immobilien GmbH | closed |

In the period under review, defined benefit pension obligations created total expenses of € 83.0 m. Overall, expenses declined by € 7.9 m year-on-year largely due to lower net interest expenses.

**PENSION COSTS FOR DEFINED BENEFIT OBLIGATIONS**

| € million | **2015/16** | 2014/15 |
|---|---|---|
| Current service cost for employee service in the period | 57.1 | 59.1 |
| Curtailment gains | – | 1.7 |
| Net interest on the net defined benefit liability | 27.6 | 34.4 |
| Past service cost | –1.7 | –0.9 |
| **Total** | **83.0** | **90.9** |

Provisions for pension obligations are established for benefits payable in the form of retirement, invalidity and surviving dependants' benefits. Provisions are exclusively formed for defined benefit schemes under which the Company guarantees employees a specific pension level, including arrangements for early retirement and temporary assistance benefits.

**DEFINED BENEFIT OBLIGATION RECOGNISED ON THE BALANCE SHEET**

| € million | **30 Sep 2016 Total** | 30 Sep 2015 Total |
|---|---|---|
| Present value of funded obligations | 3,185.9 | 2,711.0 |
| Fair value of external plan assets | 2,676.0 | 2,302.1 |
| **Deficit of funded plans** | **509.9** | **408.9** |
| Present value of unfunded pension obligations | 904.8 | 722.8 |
| **Defined benefit obligation recognised on the balance sheet** | **1,414.7** | **1,131.7** |
| of which | | |
| **Overfunded plans in other assets** | **36.2** | **15.2** |
| **Provisions for pensions and similar obligations** | **1,450.9** | **1,146.9** |
| of which current | 40.6 | 32.4 |
| of which non-current | 1,410.3 | 1,114.5 |

Re-measurements (in particular actuarial gains and losses) are immediately offset against equity in the year in which they arise. TUI Group's total pension obligations are therefore fully recognised in the statement of financial position net of fund assets.

Where the defined benefit pension obligations are not unfunded, they are funded externally. This type of funding of pension obligations is common in the UK. For funded pension plans, the provision carried only covers the shortfall in coverage between plan assets and the present value of benefit obligations.

Where plan assets exceed funded pension obligations, taking account of a difference due to past service cost, and where at the same time there is an entitlement to reimbursement or reduction of future contributions to the fund, the excess is recognised in conformity with the cap defined by IAS 19. At 30 September 2016, defined benefit assets of € 36.2 m (previous year € 15.2 m) were shown in other assets.

**DEVELOPMENT OF DEFINED BENEFIT OBLIGATIONS**

| € million | Present value of obligation | Fair value of plan assets | **Total** |
|---|---|---|---|
| **Balance as at 1 Oct 2015** | **3,433.8** | **– 2,302.1** | **1,131.7** |
| Current service cost | 57.1 | – | 57.1 |
| Past service cost | – 1.7 | – | – 1.7 |
| Curtailments and settlements | – | – | – |
| Interest expense (+) / interest income (-) | 108.2 | – 80.6 | 27.6 |
| Pensions paid | – 160.5 | 125.2 | – 35.3 |
| Contributions paid by employer | – | – 300.2 | – 300.2 |
| Contributions paid by employees | 1.5 | – 1.5 | – |
| Remeasurements | 1,076.7 | – 483.4 | 593.3 |
| due to changes in financial assumptions | 1,083.3 | – | 1,083.3 |
| due to changes in demographic assumptions | – 1.1 | – | – 1.1 |
| due to experience adjustments | – 5.5 | – | – 5.5 |
| due to return on plan assets not included in group profit for the year | – | – 483.4 | – 483.4 |
| Exchange differences | – 420.8 | 363.8 | – 57.0 |
| Other changes | – 3.6 | 2.8 | – 0.8 |
| **Balance as at 30 Sep 2016** | **4,090.7** | **– 2,676.0** | **1,414.7** |

## DEVELOPMENT OF DEFINED BENEFIT OBLIGATIONS

| € million | Present value of obligation | Fair value of plan assets | **Total** |
|---|---|---|---|
| **Balance as at 1 Oct 2014** | **3,254.5** | **–1,980.0** | **1,274.5** |
| Current service cost | 59.1 | – | 59.1 |
| Past service cost | –0.9 | – | –0.9 |
| Curtailments and settlements | –2.1 | 0.4 | –1.7 |
| Interest expense (+)/interest income (–) | 114.4 | –80.0 | 34.4 |
| Pensions paid | –132.7 | 99.6 | –33.1 |
| Contributions paid by employer | – | –149.8 | –149.8 |
| Contributions paid by employees | 1.2 | –1.2 | – |
| Remeasurements | –6.6 | –75.6 | –82.2 |
| due to changes in financial assumptions | 20.5 | – | 20.5 |
| due to changes in demographic assumptions | –30.2 | – | –30.2 |
| due to experience adjustments | 3.1 | – | 3.1 |
| due to return on plan assets not included in group profit for the year | – | –75.6 | –75.6 |
| Exchange differences | 146.9 | –115.5 | 31.4 |
| Other changes | – | – | – |
| **Balance as at 30 Sep 2015** | **3,433.8** | **–2,302.1** | **1,131.7** |

In the period under review, the present value of the pension obligation rose by € 656.9 m to € 4,090.7 m, primarily due to the significant fall in interest rates in the Eurozone and the UK.

TUI Group's fund assets rose significantly by € 373.9 m in the period under review. Apart from contributions made by UK subsidiaries in order to reduce the existing funding gap, the increase was driven by higher asset prices, in particular, of fixed-interest bonds linked to the lower interest rate.

## COMPOSITION OF PENSION ASSETS AT THE BALANCE SHEET DATE

| | **30 Sep 2016** | | 30 Sep 2015 | |
|---|---|---|---|---|
| | **Quoted market price in an active market** | | Quoted market price in an active market | |
| € million | **yes** | **no** | yes | no |
| **Fair value of fund assets at end of period** | **1,633.9** | **1,042.1** | **1,560.2** | **741.9** |
| of which equities | 727.5 | – | 692.0 | – |
| of which government bonds | 104.9 | – | 292.0 | – |
| of which corporate bonds | 301.8 | – | 274.8 | – |
| of which liability driven investments | 489.2 | – | 250.0 | – |
| of which property | – | 108.2 | – | 138.0 |
| of which growth funds | – | 83.3 | – | 89.3 |
| of which insurance policies | – | 73.2 | – | 63.7 |
| of which catastrophe bonds | – | 65.6 | – | 63.0 |
| of which cash | – | 585.2 | – | 246.4 |
| of which other | 10.5 | 126.6 | 51.4 | 141.5 |

At the balance sheet date, as in the prior year, fund assets did not comprise any direct investments in financial instruments issued by TUI AG or its consolidated subsidiaries or any property owned by the Group. For funded plans, investment in passive index tracker funds may entail a proportionate investment in Group-owned financial instruments.

Pension obligations are measured on the basis of actuarial calculations based on country-specific parameters and assumptions. The obligations under defined benefit plans are calculated on the basis of the internationally accepted projected unit credit method, taking account of expected future increases in salaries and pensions.

**ACTUARIAL ASSUMPTIONS**

| | | | **30 Sep 2016** |
|---|---|---|---|
| Percentage p.a. | **Germany** | **Great Britain** | **Other countries** |
| Discount rate | 1.0 | 2.3 | 1.4 |
| Projected future salary increases | 2.5 | 2.7 | 1.4 |
| Projected future pension increases | 1.8 | 3.6 | 1.3 |

| | | | 30 Sep 2015 |
|---|---|---|---|
| Percentage p.a. | Germany | Great Britain | Other countries |
| Discount rate | 2.25 | 3.8 | 1.9 |
| Projected future salary increases | 2.5 | 2.7 | 1.9 |
| Projected future pension increases | 1.75 | 3.6 | 1.4 |

The interest rate applicable in discounting the provision for pensions is based on an index for corporate bonds adjusted for securities already downgraded and under observation by rating agencies as well as subordinate bonds in order to meet the criterion for high quality bonds (rated AA or higher) required under IAS 19. In order to cover a correspondingly broad market, an index partly based on shorter-term bonds is used (e.g. iBoxx € Corporates AA 7-10 for the Eurozone). The resulting yield structure is extrapolated on the basis of the yield curves for almost risk-free bonds, taking account of an appropriate risk mark-up reflecting the term of the obligation.

Apart from the parameters described above, a further key assumption relates to life expectancy. In Germany, the Heubeck reference tables 2005 G are used to determine life expectancy, as in the prior year. In the UK, the S1NxA base tables are used, adjusted to future expected increases on the basis of the Continuous Mortality Investigation (CMI) 2015. The pension in payment escalation formulae depend primarily on the pension plan concerned. Apart from fixed rates of increase, there are also a number of inflation-linked pension adjustment mechanisms in different countries.

Changes in the key actuarial assumptions mentioned above would lead to the changes in defined benefit obligations presented below. The methodology used to determine sensitivity corresponds to the method used to calculate the defined benefit obligation. The assumptions were amended in isolation each time; actual interdependencies between the assumptions were not taken into account. The effect of the increase in life expectancy by one year is calculated by means of a reduction in mortality due to the use of the Heubeck tables 2005 G for pension plans in Germany. In the UK, an extra year is added to the life expectancy determined on the basis of the mortality tables.

**SENSITIVITY OF THE DEFINED BENEFIT OBLIGATION DUE TO CHANGED ACTUARIAL ASSUMPTIONS**

| | 30 Sep 2016 | | 30 Sep 2015 | |
|---|---|---|---|---|
| € million | **+50 Basis points** | **–50 Basis points** | +50 Basis points | –50 Basis points |
| Discount rate | –415.5 | +484.7 | –292.5 | +330.5 |
| Salary increase | +32.2 | –30.7 | +23.8 | –23.0 |
| Pension increase | +144.8 | –137.3 | +110.3 | –103.5 |
| | +1 year | | +1 year | |
| Life expectancy | +172.9 | – | +114.6 | – |

The weighted average duration of the defined benefit obligations totalled 21.7 years (previous year 18.5 years) for the overall Group. In the UK, the weighted duration was 23.5 years (previous year 19.7 years), while it stood at 16.6 years (previous year 15.1 years) in Germany.

Fund assets are determined on the basis of the fair values of the funds invested as at 30 September 2016. The interest rate used to determine the interest income from the assets of external funds is identical with the discount rate used for the defined benefit obligation.

For the forthcoming financial year, the companies of TUI Group are expected to contribute around € 109.6 m (previous year € 128.5 m) to pension funds and pay pensions worth € 40.6 m (previous year € 32.4 m) for unfunded plans. For funded plans, payments to the recipients are fully made from fund assets so that TUI Group does not record a cash outflow as a result.

TUI Group's defined benefit plans entail various risks, some of which may have a substantial effect on the Company.

### INVESTMENT RISK

The investment risk plays a major role, in particular for the large funded plans in the UK. Although shares usually outperform bonds in terms of producing higher returns, they also entail stronger volatility of balance sheet items and the risk of short-term shortfalls in coverage. In order to limit this risk, the trustees have built a balanced investment portfolio to limit the concentration of risks.

### INTEREST RATE RISK

The interest rate influences in particular unfunded schemes in Germany as a decline in interest rates leads to an increase in the defined benefit obligations. Accordingly, an increase in the interest rate leads to a reduction in the defined benefit obligations. Funded plans are less strongly affected by this development as the performance of the interest-bearing assets included in plan assets regularly dampens the effects.

### INFLATION RISK

An increase in the inflation rate normally increases the obligation in pension schemes linked to the final salary of beneficiaries as inflation causes an increase in the projected salary increases. At the same time, inflation-based pension increases included in the plan also rise. The inflation risk is reduced through the use of caps and collars. Moreover, the large pension funds in the UK hold inflation-linked assets, which also partly reduce the risk from a significant rise in inflation.

### LONGEVITY RISK

An increasing life expectancy increases the expected benefit duration of the pension obligation. This risk is countered by using regularly updated mortality data in calculating the present values of the obligation.

### CURRENCY RISK

For the TUI Group, the pension schemes entail a currency risk as most pension schemes are operated in the UK and therefore denominated in sterling. The risk is limited as the currency effects on the obligation and the assets partly offset each other. The currency risk only relates to the excess of pension obligations over scheme assets.

## (32) Other provisions

DEVELOPMENT OF PROVISIONS IN THE FINANCIAL YEAR 2015/16

| € million | Balance as at 30 Sep 2015 | Changes with no effect on profit and loss* | Usage | Reversal | Additions | **Balance as at 30 Sep 2016** |
|---|---|---|---|---|---|---|
| Maintenance provisions | 563.7 | – 50.0 | 91.9 | 21.2 | 213.0 | 613.6 |
| Risks from onerous contracts | 48.1 | – 5.0 | 12.8 | 5.2 | 5.9 | 31.0 |
| Restructuring provisions | 41.9 | – 3.7 | 17.4 | 1.7 | 4.9 | 24.0 |
| Provisions for other personnel costs | 38.1 | 0.3 | 9.9 | 3.3 | 10.4 | 35.6 |
| Provisions for other taxes | 27.4 | 5.1 | 1.8 | 4.2 | 6.0 | 32.5 |
| Provisions for environmental protection | 40.5 | – | 3.0 | 1.1 | 5.3 | 41.7 |
| Provisions for Litigation | 109.1 | –18.3 | 13.6 | 12.9 | 15.0 | 79.3 |
| Miscellaneous provisions | 340.9 | – 40.4 | 62.4 | 32.4 | 114.4 | 320.1 |
| **Other provisions** | **1,209.7** | **–112.0** | **212.8** | **82.0** | **374.9** | **1,177.8** |

* Reclassifications, transfers, exchange differences and changes in the group of consolidated companies.

Provisions for external maintenance primarily relate to contractual maintenance, overhaul and repair requirements for aircraft, engines and other specific components arising from aircraft operating lease contracts. Measurement of these provisions is based on the expected cost of the next maintenance event, estimated on the basis of current prices, expected price increases and manufacturers' data sheets. In line with the arrangements of the individual contracts and the aircraft model concerned, additions are recognised on a prorated basis in relation to flight hours, the number of flights or the length of the complete maintenance cycle.

Provisions for onerous contracts principally relate to unfavourable lease contracts. The decrease in the financial year under review is mainly driven by the utilisation of these provisions.

Restructuring provisions primarily relate to restructuring projects in Germany and the UK, for which detailed, formal restructuring plans have been drawn up and communicated to the parties concerned. The restructuring provisions included at the balance sheet date of € 24.0 m (previous year € 41.9 m) largely relate to benefits for employees in connection with the termination of employment contracts.

Provisions for personnel costs comprise provisions for jubilee benefits and provisions for share-based payment schemes with cash compensation in accordance with IFRS 2. Information on these long-term incentive programmes is presented in Note 42 in the section on Share-based payments in accordance with IFRS 2.

Provisions for environmental protection measures primarily relate to statutory obligations to remediate sites contaminated with legacy waste from former mining and metallurgical activities. Estimating the future cost of remediating contaminated sites entails many uncertainties, which may also impact the value of provisions. The measurement is based on assumptions about future costs derived from empirical values, conclusions from environmental expert reports and the legal assessment of the Group as well as the expected duration of the remediation measures. Unwinding these obligations under environmental law takes a long time and constitutes a technically complex process. Accordingly, there are considerable uncertainties about the actual timeframe and the specific amount of expenses required, so that actual costs may exceed the provisions carried.

Provisions for litigation are established in relation to existing lawsuits. Most provisions relate to demands for compensation from the container terminal at Zeebrugge and various other individual lawsuits. Taken individually, none of the lawsuits has a significant influence on TUI Group's economic position.

Changes in other provisions outside profit and loss primarily relate to changes in the group of consolidated companies, foreign exchange differences and reclassifications within other provisions.

Where the difference between the present value and the settlement value of a provision is material for the measurement of a non-current provision as at the balance sheet date, the provision is recognised at its present value in accordance with IAS 37. The discount rate to be applied should take account of the specific risks of the provision and of future price increases. This criterion applies to some items contained in TUI Group's other provisions. Additions to other provisions comprise an interest portion of € 6.7 m (previous year € 4.6 m), recognised as an interest expense.

**TERMS TO MATURITY OF OTHER PROVISIONS**

| | **30 Sep 2016** | | 30 Sep 2015 | |
|---|---|---|---|---|
| € million | Remaining term more than 1 year | **Total** | Remaining term more than 1 year | Total |
| Maintenance provisions | 534.8 | 613.6 | 455.8 | 563.7 |
| Risks from onerous contracts | 18.2 | 31.0 | 23.3 | 48.1 |
| Restructuring provisions | – | 24.0 | 0.2 | 41.9 |
| Provisions for other personnel costs | 24.3 | 35.6 | 23.6 | 38.1 |
| Provisions for other taxes | 24.3 | 32.5 | 22.3 | 27.4 |
| Provisions for environmental protection | 37.6 | 41.7 | 38.4 | 40.5 |
| Provisions for litigation | 51.1 | 79.3 | 50.5 | 109.1 |
| Miscellaneous provisions | 112.7 | 320.1 | 132.2 | 340.9 |
| **Other provisions** | **803.0** | **1,177.8** | **746.3** | **1,209.7** |

## (33) Financial liabilities

**FINANCIAL LIABILITIES**

| | **30 Sep 2016** | | | | 30 Sep 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Remaining term | | | | Remaining term | | | |
| € million | up to 1 year | 1–5 years | more than 5 years | **Total** | up to 1 year | 1–5 years | more than 5 years | Total |
| Bonds | 306.5 | – | – | 306.5 | – | 293.7 | – | 293.7 |
| Liabilities to banks | 47.0 | 169.4 | 194.4 | 410.8 | 61.0 | 207.3 | 225.8 | 494.1 |
| Liabilities from finance leases | 92.2 | 349.0 | 790.5 | 1,231.7 | 68.9 | 280.6 | 632.5 | 982.0 |
| Financial liabilities due to non-consolidated Group companies | 6.6 | – | – | 6.6 | 5.2 | – | – | 5.2 |
| Financial liabilities due to affiliates | 8.0 | – | – | 8.0 | 8.0 | – | – | 8.0 |
| Other financial liabilities | 77.4 | 0.1 | – | 77.5 | 90.0 | 13.4 | – | 103.4 |
| **Total** | **537.7** | **518.5** | **984.9** | **2,041.1** | **233.1** | **795.0** | **858.3** | **1,886.4** |

Non-current financial liabilities decreased year-on-year by € 149.9 m to € 1,503.4 m as at the balance sheet date. The reduction resulted from the expected refinancing of bonds issued in September 2014. The carrying amount of the bond of € 306.5 m was therefore reclassified to current financial liabilities. In addition the liabilities to banks reduced by € 69.3 m. The decline is partly offset by an increase in liabilities from finance leases of € 226.4 m. The increase is mainly driven by the finance lease for cruise ship Discovery and an aircraft in Q3 2015 / 16.

Current liabilities rose by € 304.6 m to € 537.7 m year-on-year as at 30 September 2016.

FAIR VALUES AND CARRYING AMOUNTS OF THE BONDS ISSUED AT 30 SEP 2016

| € million | Issuer | Nominal value initial | Nominal value outstanding | Interest rate % p.a. | 30 Sep 2016 Stock market value | 30 Sep 2016 Carrying amount | 30 Sep 2015 Stock market value | 30 Sep 2015 Carrying amount |
|---|---|---|---|---|---|---|---|---|
| 2014/19 bond | TUI AG | 300.0 | 300.0 | 4.500 | 308.3 | 306.5 | 314.4 | 293.7 |
| **Total** | | | | | **308.3** | **306.5** | **314.4** | **293.7** |

On 26 September 2014, TUI AG issued a fixed-interest bond with a coupon of 4.5 % p.a. with a nominal value of € 300.0 m. The bond was originally to mature on 1 October 2019. It can be redeemed ahead of maturity date from 1 October 2016. At the balance sheet date, it was expected that TUI was going to use its redemption right and redeem the bond at short notice at a redemption price of 102.25 % per bond as part of a refinancing scheme.

## (34) Trade accounts payable

TRADE PAYABLES

| € million | 30 Sep 2016 | 30 Sep 2015 |
|---|---|---|
| To third parties | 2,450.6 | 3,181.2 |
| To non-consolidated Group companies | 1.0 | 5.8 |
| To affiliates | 25.3 | 37.2 |
| **Total** | **2,476.9** | **3,224.2** |

The decrease in trade payables results primarily from the sale of Hotelbeds Group.

## (35) Derivative financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS

| € million | 30 Sep 2016 Remaining term up to 1 year | 30 Sep 2016 Remaining term 1 – 5 years | 30 Sep 2016 Remaining term more than 5 years | 30 Sep 2016 Total | 30 Sep 2015 Remaining term up to 1 year | 30 Sep 2015 Remaining term 1 – 5 years | 30 Sep 2015 Remaining term more than 5 years | 30 Sep 2015 Total |
|---|---|---|---|---|---|---|---|---|
| Liabilities from derivative financial instruments to third parties | 249.6 | 27.5 | – | 277.1 | 388.2 | 78.5 | – | 466.7 |

Derivative financial instruments are included at their fair values (market values). They mainly serve to hedge future business operations and are detailed in the explanatory information on financial instruments.

## (36) Deferred and current tax liabilities

DEFERRED AND CURRENT TAX LIABLITIES

| € million | 30 Sep 2016 | 30 Sep 2015 |
|---|---|---|
| Deferred tax liabilities | 62.9 | 125.7 |
| Current tax liabilities | 218.2 | 194.6 |
| **Total** | **281.1** | **320.3** |

Deferred tax liabilities include an amount of € 49.2 m (previous year € 105.5 m) to be realised after more than twelve months.

## (37) Other liabilities

OTHER LIABILITIES

| | | | 30 Sep 2016 | | | 30 Sep 2015 |
|---|---|---|---|---|---|---|
| | Remaining term | | | Remaining term | | |
| € million | up to 1 year | 1–5 years | Total | up to 1 year | 1–5 years | Total |
| Other liabilities due to non-consolidated Group companies | 7.5 | – | 7.5 | 3.6 | – | 3.6 |
| Other liabilities due to affiliates | 13.3 | 5.8 | 19.1 | 29.1 | 8.0 | 37.1 |
| Other liabilities relating to other taxes | 27.8 | – | 27.8 | 41.9 | – | 41.9 |
| Other liabilities relating to social security | 45.7 | – | 45.7 | 47.2 | – | 47.2 |
| Other liabilities relating to employees | 237.8 | 17.1 | 254.9 | 273.4 | 13.8 | 287.2 |
| Other liabilities relating to members of the Boards | 8.5 | – | 8.5 | 4.2 | – | 4.2 |
| Advance payments received | 2,301.3 | – | 2,301.3 | 2,568.3 | 13.5 | 2,581.8 |
| Other miscellaneous liabilities | 192.4 | 64.1 | 256.5 | 205.0 | 25.7 | 230.7 |
| **Other liabilities** | **2,834.3** | **87.0** | **2,921.3** | **3,172.7** | **61.0** | **3,233.7** |
| Deferred income | 38.1 | 73.1 | 111.2 | 74.6 | 75.2 | 149.8 |
| **Total** | **2,872.4** | **160.1** | **3,032.5** | **3,247.3** | **136.2** | **3,383.5** |

The decrease in other liabilities results primarily from the sale of Hotelbeds Group and the classification of Specialist Group as discontinued operation.

## (38) Liabilities related to assets held for sale

LIABILITIES RELATED TO ASSETS HELD FOR SALE

| € million | 30 Sep 2016 | 30 Sep 2015 |
|---|---|---|
| Discontinued Operation Specialist Group | 472.3 | – |
| Discontinued Operation LateRooms Group | – | 31.5 |
| **Total** | **472.3** | **31.5** |

For more detailed information, reference is made to the section on “Discontinued operations”.

## (39) Contingent liabilities

As at 30 September 2016, contingent liabilities amount to € 326.1 m (previous year € 364.4 m). Contingent liabilities are reported at an amount representing the best estimate of the potential expenditure that would be required to meet the potential obligation as at the balance sheet date. Contingent liabilities as at 30 September 2016 are principally attributable to the granting of guarantees for the benefit of Hapag-Lloyd AG and TUI Cruises GmbH for collateralised ship financing schemes. The year-on-year decline versus 30 September 2015 mainly results from the return of guarantees and from redemption payments, which more than offset the increase resulting from contingent liabilities newly entered into.

During financial year 2011 / 12, the German tax administration issued a decree on the interpretation of the trade tax act, amended with effect from financial year 2008. This decree, only binding for the tax administration, is interpreted by the German tax administration as indicating that expenses of German tour operators for the purchase of hotel beds are not fully deductible in determining the basis for the assessment of trade tax. TUI does not share that view, in particular as hotel purchasing contracts are mixed contracts also covering catering, cleaning, entertaining guests and other services characterising the purchase service.

On 4 February 2016 the Münster fiscal court agreed with the interpretation of the German tax administration in the case of a third party tour operator. To recognise the increased risk compared to 30 September 2015 income tax liabilities amounting to € 44.4 m were recognised at 30 September 2016.

## (40) Litigation

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 their economic position as at 30 September 2016 or future periods. This also applies to actions claiming warranty, repayment or any other compensation in connection with the divestment of subsidiaries and business units over the past few years. As in previous years, the respective Group companies recognised adequate provisions, partly covered by expected insurance benefits, to cover all potential financial charges from court or arbitration proceedings.

In 1999, the operator of the container terminal in Zeebrugge Belgium filed an action for damages against CP Ships Ltd., part of TUI Group, and some of its subsidiaries for an alleged breach of contract in connection with switching the Belgian port of call from Zeebrugge to Antwerp. Following first oral proceedings in September 2013, the court ruled against two subsidiaries of CP Ships Ltd. in October 2013 and dismissed the action against all other defendants (including CP Ships Ltd.). Both parties have appealed so that the action is now only pending against the two subsidiaries of CP Ships Ltd. and CP Ships Ltd. itself. Moreover, the CP Ships companies would have rights of recourse against solvent third parties in the event of an adverse final judgment.

## (41) Other financial commitments

NOMINAL AND FAIR VALUES OF OTHER FINANCIAL COMMITMENTS

| | | | | **30 Sep 2016** | | | | 30 Sep 2015 |
|---|---|---|---|---|---|---|---|---|
| | Remaining term | | | | Remaining term | | | |
| € million | up to 1 year | 1–5 years | more than 5 years | **Total** | up to 1 year | 1–5 years | more than 5 years | Total |
| Order commitments in respect of capital expenditure | 657.1 | 2,929.7 | 1,199.9 | 4,786.7 | 275.1 | 1,969.8 | 1,682.8 | 3,927.7 |
| Other financial commitments | 68.1 | 45.9 | – | 114.0 | 39.2 | 75.2 | – | 114.4 |
| **Total** | **725.2** | **2,975.6** | **1,199.9** | **4,900.7** | **314.3** | **2,045.0** | **1,682.8** | **4,042.1** |
| **Fair value** | **718.0** | **2,888.1** | **1,105.1** | **4,711.2** | **307.5** | **1,912.9** | **1,399.5** | **3,619.9** |

The fair value of other financial commitments was determined by means of discounting future expenses using a customary market interest rate of 1.00 % p. a. (previous year 2.25 % p. a.). If the previous year's interest rate of 2.25 % had been applied, the fair value would have been € 220.3 m lower.

Order commitments in respect of capital expenditure relate almost exclusively to Tourism and increased by € 859.0 m year-on-year as at 30 September 2016. This was primarily due to new order commitments for aircrafts and aircraft equipment. Other significant increases include new orders for cruise ships and higher levels of hotel construction projects. The increase was partly offset by foreign exchange effects for liabilities denominated in non-functional currencies.

FINANCIAL COMMITMENTS FROM OPERATING LEASE, RENTAL AND CHARTER CONTRACTS

| | | | | | **30 Sep 2016** | | | | | 30 Sep 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Remaining term | | | | | Remaining term | | | | |
| € million | up to 1 year | 1–5 years | 5–10 years | more than 10 years | **Total** | up to 1 year | 1–5 years | 5–10 years | more than 10 years | Total |
| Aircraft | 391.7 | 1,125.7 | 368.9 | – | 1,886.3 | 401.4 | 1,219.5 | 508.6 | 15.2 | 2,144.7 |
| Hotel complexes | 242.3 | 411.9 | 67.7 | 10.0 | 731.9 | 231.9 | 462.4 | 90.9 | 8.4 | 793.6 |
| Travel agencies | 67.9 | 124.8 | 30.4 | 6.0 | 229.1 | 74.1 | 143.1 | 38.7 | 7.8 | 263.7 |
| Administrative buildings | 43.4 | 108.7 | 64.7 | 54.4 | 271.2 | 54.6 | 129.7 | 76.1 | 67.1 | 327.5 |
| Ships, yachts and motor boats | 99.6 | 104.7 | 0.3 | – | 204.6 | 96.9 | 97.6 | 0.5 | – | 195.0 |
| Other | 22.5 | 26.1 | 8.9 | 56.8 | 114.3 | 26.8 | 26.9 | 8.8 | 56.3 | 118.8 |
| **Total** | **867.4** | **1,901.9** | **540.9** | **127.2** | **3,437.4** | **885.7** | **2,079.2** | **723.6** | **154.8** | **3,843.3** |
| **Fair value** | **858.7** | **1,846.1** | **499.6** | **115.2** | **3,319.6** | **866.1** | **1,944.9** | **605.7** | **123.9** | **3,540.6** |

The fair value of financial commitments from lease, rental and charter agreements was determined by means of discounting future expenses using a standard market interest rate of 1.00 % p. a. (previous year 2.25 % p. a.). If the previous year's interest rate of 2.25 % p. a. had been applied, the fair value would have been € 137.6 m lower.

The commitments from lease, rental and charter agreements exclusively relate to leases that do not transfer all the risks and rewards of ownership of the assets to the companies of the TUI Group in accordance with IFRS rules (operating leases).

Operating leases for aircraft generally do not include a purchase option. Current lease payments usually do not include any maintenance costs. The basic lease term is usually around 8 years on average.

The decrease in commitments compared to 30 September 2015 can largely be explained by a reduction of lease obligations for aircraft. Increases resulting from the commission of several aircraft were off-set significantly by decreases caused by low levels of lease extensions. Commitments for hotel leases reduced as several contracts were re-negotiated during the year and obligations for administrative buildings decreased as commitments for the prior year included amounts from Hotelbeds Group, which are no longer included in the current year. A further decline was caused by foreign exchange effects for liabilities denominated in non-functional currencies.

## (42) Share-based payments in accordance with IFRS 2

### MULTI-ANNUAL BONUS PAYMENT

The long-term incentive programme for Board members is based on phantom shares. In each financial year, a new period of performance measurements commences, spanning the current plus the following three financial years. As a result, each performance measurement period has a general term of four years. All Board members have their individual target amount defined in their service contract. This is translated at the beginning of each performance measurement period into phantom shares based on the average price of TUI AG shares ('preliminary number of phantom shares'). The average share price is calculated based on the share prices during the 20 days prior to the beginning of any financial year. The entitlement under the long-term incentive programme arises upon completion of the four-year performance period.

Upon the completion of the four-year performance period, the preliminary number of phantom shares is multiplied by the degree of target achievement. This degree is determined by the rank achieved by TUI AG when comparing the total shareholder return (TSR) of companies listed in the "Dow Jones Stoxx 600 Travel & Leisure" index. The rank is subsequently translated into a percentage, which is the degree of target achievement. If the degree of target achievement is less than 25 %, no preliminary phantom shares are remunerated. If the degree of target achievement exceeds 25 %, it is multiplied by the number of preliminary phantom shares granted, subject to a cap of 175 %. At the end of the four-year performance period, the number of phantom shares determined in this way is multiplied by the average price (20 trading days) of TUI AG shares, and the resulting amount is automatically paid out in cash. The maximum amount payable under the long-term incentive programme has been capped for each individual.

If the condition mentioned above is met, upon expiry of the performance period, the awards are automatically exercised. If the conditions are not met, the awards are forfeited. The service period will be restricted to the end of the employment period if plan participants leave the Company, as long as employment is not terminated due to a significant reason within the sphere of responsibility of the participant or by the participant without cause.

### STOCK OPTION PLAN

The stock option plan was closed during financial year 2015 / 16. The last tranche was granted in February 2016. Stock options already granted under the plan are exercisable in accordance with the plan rules described below.

Bonuses were granted to Group executives entitled to receive a bonus; the bonuses were translated into phantom shares in TUI AG on the basis of an average share price. The phantom shares were calculated on the basis of Group earnings before interest, taxes and amortisation of goodwill (EBITA). The translation into phantom shares was based on the average share price of the TUI share on the 20 trading days following the Supervisory Board meeting at which the annual financial statements were approved. The number of phantom shares granted in a financial year was therefore only determined in the subsequent year. Following a lock-up period of two years, the individual beneficiaries are free to exercise their right to cash payment from this bonus within three years. Following significant corporate news, the entitlements have to be exercised within defined timeframes. The lock-up period is not applicable if a beneficiary leaves the Company; in that case, the entitlements have to be exercised in the next time window. The level of the cash payment depends on the average share price of the TUI share over a period of 20 trading days after the exercise date. There are no absolute or relative return or share price targets. A cap has been agreed for exceptional, unforeseen developments. Since the strike price is € 0.00 and the incentive programme does not entail a vesting period, the fair value corresponds to the intrinsic value and hence the market price at the balance sheet date. Accordingly, the fair value of the obligation is determined by multiplying the number of phantom shares with the share price at the respective reporting date.

### PERFORMANCE SHARE PLAN (PSP)

After the termination of the Stock option plan, a new scheme was introduced for applicable Group executives. The scheme conditions are harmonised with the multi-annual bonus plan of the Board Members with the notable exception of a three year performance period instead of four years.

The multi-annual bonus, stock option plan and PSP schemes are recognised as payments with cash compensation and are granted with an exercise price of € 0.00. The personnel expense is recognized upon actual delivery of service according to IFRS 2 and is therefore split over a period of time. According to IFRS 2, all contractually granted entitlements from the PSP have to be accounted for, irrespective of whether and when they are actually awarded. The phantom shares granted during financial year 2015 / 16 are awarded pro rata upon actual delivery of service. Phantom shares developed as follows for the above remuneration schemes.

**DEVELOPMENT OF PHANTOM SHARES**

| | Number of shares | Present value € million |
|---|---|---|
| **Balance as at 30 Sep 2014** | **1,181,042** | **14.0** |
| Phantom shares granted | 779,616 | 9.7 |
| Phantom shares exercised | 497,970 | 8.3 |
| Phantom shares forfeited | 69,116 | 0.8 |
| Measurement results | – | 8.2 |
| **Balance as at 30 Sep 2015** | **1,393,572** | **22.8** |
| Phantom shares granted | 4,301,851 | 59.1 |
| Phantom shares exercised | 451,455 | 5.9 |
| Phantom shares forfeited | – | – |
| Measurement results | – | – 9.4 |
| **Balance as at 30 Sep 2016** | **5,243,968** | **66.6** |

From all granted phantom shares, during financial year 2015 / 16 394,363 phantom shares have been awarded.

In financial year 2015 / 16, personnel expenses due to share-based payment schemes with cash compensation of € 4.5 m (2014 / 15: € 8.0 m) were recognised through profit and loss.

As at 30 September 2016 provisions relating to entitlements under these long-term incentive programmes totaled € 13.4 m and further € 1.9 m were included as liabilities (previous year provisions of € 15.2 m and € 1.5 m liabilities). Within the stock option plan 216,698 phantom shares (value equivalent to € 2.8 m) vested as at 30 September 2016.

The fair value of services received in return for phantom shares granted was measured by reference to the fair value of the underlying equity instruments. The fair value at the date the share awards were granted is usually estimated using a binominal methodology, except where there is a market-based performance condition attached to vesting. In that case a Monte Carlo simulation is used for the estimate.

**INFORMATION RELATING TO FAIR VALUES OF PHANTOM SHARES GRANTED**

| | | 2015/16 |
|---|---|---|
| Fair values at measurement date (scaled to € 1) | € | 0.75 to 1.73 |
| Share price | € | 12.69 |
| Expected volatility | % | 31.11 to 46.40 |
| Award life | years | 1 to 16.75 |
| Risk free interest rate | % | – 0.72 to – 0.69 |

## EMPLOYEE SHARES

TUI AG offers shares at preferential conditions for purchase by eligible employees in Germany and some European countries. The purchase entails a lock-up period of two years. In financial year 2015 / 16, a total of 181,280 employee shares that employees had subscribed to in the prior year were issued. The subscription period for employee shares in financial year 2015 / 16 expired on 30 June 2016. Employees subscribed to 253,690 employee shares which were issued in September 2016. Personnel costs recognised through profit and loss, i.e. the difference between the current share price as at the balance sheet date and the reduced purchase price, amount to € 0.8 m.

## SHARE-BASED PAYMENT SCHEMES IN TUI AG SUBSIDIARIES

The three principal schemes below are all closed to new participants. Eligible participants are now included in the TUI AG phantom schemes, details of which are provided above.

Certain beneficiaries (except for the Executive Board members) were eligible to receive awards under the three remuneration schemes described below. Prior to the merger between TUI Travel PLC and TUI AG, the schemes operated by TUI Travel PLC businesses were equity-settled and all outstanding awards remain equity-settled. All awards granted under the schemes after the merger will be settled in cash.

The three principal share-based payment schemes linked executive remuneration to the future performance of the company are: a Performance Share Plan (PSP), a Deferred Annual Bonus Scheme (DABS) and a Deferred Annual Bonus Long-Term Incentive Scheme (DABLIS). These incentive schemes were offered to participants free of charge and entail both lock-up periods and performance conditions.

The share awards of all remuneration schemes will only vest if the average annual return on invested capital (ROIC) is at least equal to the average weighted average cost of capital (WACC) over a period of three years. If this condition is fulfilled, the number of vesting awards are determined as a function of the fulfilment of the following performance conditions.

### PERFORMANCE SHARE PLAN (PSP)

Up to 50 % of these awards granted will vest based on growth in the Group's reported earnings per share (EPS) in excess of growth in the UK Retail Price Index. Up to 25 % of the awards will vest based on the Group's total shareholder return (TSR) performance relative to an average of the TSR performance of an index of other capital market-orientated travel and tourism companies. Likewise, up to 25 % of the awards vest if the Group's average return on invested capital (ROIC) meets predefined targets.

### DEFERRED ANNUAL BONUS SCHEME (DABS)

The awards granted under this scheme vest upon completion of a three-year period at the earliest.

Up to 50 % of the granted awards will vest based on growth in earnings per share (EPS) relative to the UK Retail Price Index (RPI). 25 % of the awards will vest based on total shareholder return (TSR) performance relative to the TSR performance of other capital market-oriented travel and tourism companies. Likewise, up to 25 % of the awards will vest if the average return on invested capital (ROIC) meets certain targets.

### DEFERRED ANNUAL BONUS LONG-TERM INCENTIVE SCHEME (DABLIS)

The Deferred Annual Bonus Long-Term Incentive Scheme (DABLIS), for executive staff (except for the Executive Board) required a 25 % conversion of any annual variable compensation into shares. Some eligible staff have been awarded further (matching) share awards as additional bonuses. Matching shares are limited to four times the converted amount. The earliest point for the shares to be eligible for release is similarly at the end of a three-year period.

Up to 50 % of the awards will vest based on achievement of certain EBITA targets. Up to 25 % of awards will vest based on the earnings per share (EPS) performance relative to the UK Retail Price Index and up to 25 % based on the total shareholder return (TSR) performance in relation to the TSR performance of other capital market-oriented travel and tourism companies.

The following schedules relate to the outstanding awards under the TUI Travel equity-settled schemes and show the number of TUI Travel Limited shares which remain outstanding following conversion into TUI AG shares at the conversion rate of 0.399 new TUI AG shares for each TUI Travel share as agreed in the merger documentation.

The vesting schedule for the awards was as follows as at 30 September 2016:

**SHARE AWARD SCHEMES AND ORDINARY SHARES OUTSTANDING**

| | **30 Sep 2016 Number of shares** | 30 Sep 2015 Number of shares | Date due to vest/ date vested |
|---|---|---|---|
| Performance Share Plan (PSP) | – | 732,594 | 6 December 2015 |
| | 227,129 | 486,203 | 12 December 2016 |
| | – | – | |
| Deferred Annual Bonus Scheme (DABS) | – | 1,393,129 | 6 December 2015 |
| | 343,215 | 925,025 | 12 December 2016 |
| | – | – | |
| Deferred Annual Bonus Long-Term Incentive Scheme (DABLIS) | – | 808,039 | 6 December 2015 |
| | 570,732 | 681,508 | 12 December 2016 |
| **Total** | **1,141,076** | **5,026,498** | |

The development of awards already granted is as follows:

**DEVELOPMENT OF THE NUMBER OF SHARE OPTIONS**

| | Number |
|---|---|
| Outstanding at 1 Oct 2015 | 5,026,498 |
| Forfeited during the year | –677,243 |
| Exercised during the financial year | –3,208,179 |
| Granted during the financial year | – |
| **Balance as at 30 Sep 2016** | **1,141,076** |

The weighted average TUI AG share price was € 14.76 at exercise date (previous year € 14.56). The weighted average remaining contractual life of options not exercised is 0.19 years at 30 September 2016 (previous year 0.61 years). In addition to the above shares, the deferral of variable compensation into share awards means that 75,462 shares (previous year 558,154 shares) are still outstanding under DABS and 306,396 (previous year 799,354) under DABLIS. The awards will vest on 12 December 2016.

Participants are not entitled to dividends prior to vesting. Expected volatility is based on historic volatility adjusted for changes to future volatility indicated by publicly available information.

In financial year 2015 / 16, personnel costs of € 6.2 m (previous year € 20.1 m) relating to share-based payment schemes involving compensation by equity instruments were carried through profit and loss.

After the merger, eligible beneficiaries were included in a cash-settled (Phantom) scheme. Calculation of the cash settlement is based on the same criteria as those used for settlement by equity instruments. In the financial year 2015 / 16, this gave rise to staff costs of € 9.6 m (previous year € 10.9 m). As at 30 September 2016 provisions relating to entitlements under these long-term incentive programmes totalled € 12.5 m (previous year € 11.2 m) and were classified as accruals.

The schedule below shows the development of outstanding cash-settled phantom shares as at 30 September 2016:

**DEVELOPMENT OF PHANTOM SHARES GRANTED AT SUB-GROUP LEVEL**

| | Number of shares | Present value € million |
|---|---|---|
| **Balance as at 30 Sep 2015** | **1,604,386** | **26.7** |
| Phantom shares granted | 829,786 | 13.5 |
| Phantom shares exercised | – 402,039 | – 6.5 |
| Phantom shares forfeited | – 292,200 | – 4.8 |
| Measurement results | – | – 6.7 |
| **Balance as at 30 Sep 2016** | **1,739,933** | **22.2** |

## (43) Financial instruments

### RISKS AND RISK MANAGEMENT

#### RISK MANAGEMENT PRINCIPLES

Due to the nature of its business operations, the TUI Group is exposed to various financial risks, including market risks (consisting of currency risks, interest rate risks and market price risks), credit risks and liquidity risks.

In accordance with the Group's financial goals, financial risks have to be mitigated. In order to achieve this, policies and procedures have been developed to manage risk associated with financial transactions undertaken.

The rules, responsibilities and processes as well as limits for transactions and risk positions have been defined in policies. The trading, processing and control have been segregated in functional and organisational terms. Compliance with the policies and limits is continually monitored. All hedges by the TUI Group are consistently based on recognised or forecasted underlying transactions. Standard software is used for assessing, monitoring, reporting, documenting and reviewing the effectiveness of the hedging relationships for the hedges entered into. In this context, the fair values of all derivative financial instruments determined on the basis of the Group's own systems are regularly compared with the fair value confirmations from the external counterparties. The processes, the methods applied and the organisation of risk management are reviewed for compliance with the relevant regulations on at least an annual basis by the internal audit department and external auditors.

Within the TUI Group, financial risks primarily arise from cash flows in foreign currencies, fuel requirements (jet fuel and bunker oil) and financing via the money and capital markets. In order to limit the risks from changes in exchange rates, market prices and interest rates for underlying transactions, the TUI Group uses over-the-counter derivative financial instruments. These are primarily fixed-price transactions. In addition, the TUI Group also uses options and structured products. Use of derivative financial instruments is confined to internally fixed limits and other policies. The transactions are concluded on an arm's length basis with counterparties operating in the financial sector, whose counterparty risk is regularly monitored. Foreign exchange translation risks from the consolidation of Group companies not preparing their accounts in euros are not hedged.

Accounting and measurement of financial instruments is in line with IAS 39.

### MARKET RISK

Market risks result in fluctuations in earnings, equity and cash flows. In order to limit or eliminate these risks, the TUI Group has developed various hedging strategies, including the use of derivative financial instruments.

IFRS 7 requires the presentation of a sensitivity analysis showing the effects of hypothetical changes in relevant market risk variables on profit or loss and equity. The effects for the period are determined by relating the hypothetical changes in risk variables to the portfolio of primary and derivative financial instruments as at the balance sheet date. It is ensured that the portfolio of financial instruments as at the balance sheet date is representative for the entire financial year.

The analyses of the TUI Group's risk reduction activities outlined below and the amounts determined using sensitivity analyses represent hypothetical and thus uncertain risks. Due to unforeseeable developments in the global financial markets, actual results may deviate substantially from the disclosures provided. The risk analysis methods used must not be considered a projection of future events or losses, since the TUI Group is also exposed to risks of a non-financial or non-quantifiable nature. These risks primarily include sovereign, business and legal risks not covered by the following presentation of risks.

### CURRENCY RISK

The business operations of the TUI Group's companies generate payments or receipts denominated in foreign currencies, which are not always matched by payments or receipts with equivalent terms in the same currency. Using potential netting effects (netting of payments made and received in the same currency with identical or similar terms), the TUI Group enters into appropriate hedges with external counterparties in order to protect its profit margin from exchange rate-related fluctuations.

Within the TUI Group, risks from exchange rate fluctuations are hedged, with the largest hedging volumes relating to US dollars, euros and pound sterling. The Eurozone limits the currency risk from transactions in the key tourist destinations to Group companies whose functional currency is not the euro. The tourism business operations are mainly affected by changes in the value of the US dollar and the euro, the latter predominantly affecting the TUI tour operators in the UK and the Nordic countries. In tourism operations, payments in US dollars primarily relate to the procurement of services in non-European destinations, purchases of jet and ship fuel and aircraft and cruise ship purchases or charter.

The tourism companies use financial derivatives to hedge their planned foreign exchange requirements. They aim to cover 80 % to 100 % of the planned currency requirements at the beginning of the tourism season. In this regard, account is taken of the different risk profiles of the TUI Group companies. The hedged currency volumes are adjusted in line with changes in planned requirements based on reporting by business units.

Currency risks within the meaning of IFRS 7 arise from primary and derivative monetary financial instruments issued in a currency other than the functional currency of a company. Exchange rate-related differences from the translation of financial statements into the Group's presentation currency are not taken into account. Taking account of the different functional currencies within the TUI Group, the sensitivity analyses of the currencies identified as relevant risk variables are presented below. A 10 % strengthening or weakening of the respective functional currencies, primarily euro and pound sterling, against the other currencies would cause the following effects on the revaluation reserve and earnings after tax:

SENSITIVITY ANALYSIS – CURRENCY RISK

| € million | 30 Sep 2016 | | 30 Sep 2015 | |
|---|---|---|---|---|
| Variable: Foreign exchange rate | **+10%** | **–10%** | +10% | –10% |
| **Exchange rates of key currencies** | | | | |
| **€/US dollar** | | | | |
| Revaluation reserve | –123.4 | +124.0 | –102.3 | +102.4 |
| Earnings after income taxes | –6.5 | +6.7 | –8.0 | +9.8 |
| **€/Pound sterling** | | | | |
| Revaluation reserve | –176.0 | +176.0 | –203.8 | +203.8 |
| Earnings after income taxes | +17.3 | –22.2 | –150.5 | +152.4 |
| **Pound sterling/US dollar** | | | | |
| Revaluation reserve | –114.3 | +114.3 | –97.9 | +97.9 |
| Earnings after income taxes | +10.0 | –10.0 | –13.5 | +13.5 |
| **€/Swedish krona** | | | | |
| Revaluation reserve | –0.7 | +0.7 | +21.0 | –21.0 |
| Earnings after income taxes | – | – | – | – |

INTEREST RATE RISK

The TUI Group is exposed to interest rate risks from floating-rate primary and derivative financial instruments. Where interest-driven cash flows of floating-rate primary financial instruments are converted into fixed cash flows using derivative hedges, they are not exposed to an interest rate risk. No interest rate risk exists for fixed-interest financial instruments carried at amortised cost.

Changes in market interest rates mainly impact floating-rate primary financial instruments and derivative financial instruments entered into in order to reduce interest-induced cashflow fluctuations.

The table below presents the equity and earnings effects of an assumed increase or decrease in the market interest rate of 50 base points as at the balance sheet date.

SENSITIVITY ANALYSIS – INTEREST RATE RISK

| € million | 30 Sep 2016 | | 30 Sep 2015 | |
|---|---|---|---|---|
| Variable: Interest rate level for floating interest-bearing debt | **+50 basis points** | **–50 basis points** | +50 basis points | –50 basis points |
| Revaluation reserve | – | – | – | – |
| Earnings after income taxes | +2.6 | –2.6 | +0.3 | – |

FUEL PRICE RISK

Due to the nature of its business operations, the TUI Group is exposed to market price risks from the purchase of fuel, both for the aircraft fleet and the cruise ships.

The tourism companies use financial derivatives to hedge their exposure to market price risks for the planned consumption of fuel. At the beginning of the touristic season the target hedging ratio is at least 80 %. The different risk profiles of the Group companies operating in different source markets are taken into account, including the possibility of levying fuel surcharges. The hedging volumes are adjusted for changes in planned consumption as identified by the Group companies.

If the commodity prices, which underlie the fuel price hedges, increase or decrease by 10 % on the balance sheet date, the impact on equity and on earnings after income taxes would be as shown in the table below.

**SENSITIVITY ANALYSIS – FUEL PRICE RISK**

| € million | | **30 Sep 2016** | | 30 Sep 2015 |
|---|---|---|---|---|
| Variable: Fuel prices for aircraft and ships | **+10%** | **–10%** | +10% | –10% |
| Revaluation reserve | +81.2 | –80.8 | +62.4 | –61.6 |
| Earnings after income taxes | –0.3 | – | –0.1 | –0.3 |

**OTHER PRICE RISKS**
Apart from the financial risks that may result from changes in exchange rates, commodity prices and interest rates, the TUI Group is not exposed to significant price risks at the balance sheet date, except for the share price risk related to Hapag-Lloyd AG.

A hypothetical change of +10 % / –10 % in the Hapag-Lloyd AG share price would result in a € 26.6 m increase or -€ 26.6 m decrease in the fair value of the shares held by the Group and would be recognised in other comprehensive income. In the prior year the sensitivity analysis relating to the stake in Hapag-Lloyd was based on the effect of changes to non-observable input factors on the fair value (level 3 measurement). An assumed increase or decrease in the non-observable input factors of 0.25 % would have resulted in the following favourable or unfavourable impacts on profit or loss: (Forecasted) EBITA-margin € 71.5 m / € –71.4 m, WACC € – 43.0 m / € 47.2 m, terminal growth rate € 40.4 m / € – 36.8 m.

**CREDIT RISK**
The credit risk in non-derivative financial instruments results from the risk of counterparties defaulting on their contractual payment obligations.

Maximum credit risk exposure corresponds to the total of the recognised carrying amounts of the financial assets (including derivative financial instruments with positive market values). It also relates to the granting of financial guarantees for the discharge of liabilities. Details concerning the guarantees at the balance sheet date are presented in Note 39. Where legally enforceable, financial assets and liabilities are netted. Credit risks are reviewed closely on conclusion of the contract and continually monitored thereafter in order to swiftly respond to potential impairments in a counterparty's solvency. Responsibility for handling the credit risk is held by the Group company holding the receivable.

Since the TUI Group operates in many different business areas and regions, significant credit risk concentrations of receivables from and loans to specific debtors or groups of debtors are not to be expected. A significant concentration of credit risks related to specific countries is not to be expected either. As of the balance sheet date, there is no collateral held, or other credit enhancements that reduce the maximum credit risk (previous year € 1.1 m). Collateral held in the prior period relates exclusively to financial assets of the category "Trade receivable and other assets". The collateral mainly comprises collateral for financial receivables granted and maturing in more than one year and / or with a volume of more than € 1 m. Rights in rem, directly enforceable guarantees, bank guarantees and comfort letters are used as collateral.

Identifiable credit risks of individual receivables are subject to provisions for bad debts. In addition, portfolios are impaired based on observed values. An analysis of the aging structure of the category Trade receivables and other assets is presented in Note 19.

At the balance sheet date, there were no financial assets that would be overdue or impaired unless the terms and conditions of the contract had been renegotiated, neither in financial year 2015 / 16 nor in 2014 / 15.

Credit management also covers the TUI Group's derivative financial instruments. The maximum credit risk for derivative financial instruments entered into is limited to the total of all positive market values of these instruments since in the event of counterparty default asset losses would only be incurred up to that amount. Since derivative financial instruments are concluded with different debtors, credit risk exposure is reduced. The specific credit risks of individual counterparties are taken into account in determining the fair values of derivative financial instruments. In addition, the counterparty risk is continually monitored and controlled using internal bank limits.

### LIQUIDITY RISK

The liquidity risks arises from the TUI Group being unable to meet its short term financial obligations and the resulting increases in funding costs. For this reason, the key objectives of TUI's internal liquidity management system are to secure the TUI Group's liquidity at all times and consistently comply with contractual payment obligations. Assets of € 0.5 m (previous year € 0.3 m) were deposited as collateral for liabilities. The participating Group companies are also jointly and severally liable for financial liabilities from cash pooling agreements.

The tables provided below list the contractually agreed (undiscounted) cash flows of all primary financial liabilities and derivative financial instruments as at the balance sheet date. Planned payments for future new liabilities were not taken into account. Where financial liabilities have a floating interest rate, the forward interest rates fixed at the balance sheet date were used to determine future interest payments. Financial liabilities cancellable at any time are allocated to the earliest maturity band.

**CASH FLOW OF FINANCIAL INSTRUMENTS – FINANCIAL LIABILITIES (30 SEP 2016)**

| | Cash outflow until 30 Sep | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **up to 1 year** | | 1–2 years | | 2–5 years | | more than 5 years | |
| € million | **repayment** | **interest** | repayment | interest | repayment | interest | repayment | interest |
| **Financial liabilities** | | | | | | | | |
| Bonds* | – | –13.5 | – | –13.5 | –300.0 | –20.3 | – | – |
| Liabilities to banks | –47.0 | –12.0 | –47.6 | –12.4 | –121.8 | –32.2 | –194.4 | –31.6 |
| Liabilities from finance leases | –92.2 | –33.5 | –91.2 | –31.6 | –257.8 | –81.8 | –790.5 | –71.5 |
| Financial liabilities due to non-consolidated Group companies | –6.6 | – | – | – | – | – | – | – |
| Financial liabilities due to affiliates | –8.0 | –0.1 | – | – | – | – | – | – |
| Other financial liabilities | –77.4 | – | –0.1 | – | – | – | – | – |
| Trade payables | –2,476.9 | – | – | – | – | – | – | – |
| Other liabilities | –175.7 | –19.8 | –8.4 | – | – | – | – | – |

* The bond was early redeemed in November 2016. For further details please refer to the section 49 "Significant transactions after the balance sheet date".

CASH FLOW OF FINANCIAL INSTRUMENTS – FINANCIAL LIABILITIES (30 SEP 2015)

| | Cash outflow until 30 Sep | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **up to 1 year** | | 1–2 years | | 2–5 years | | more than 5 years | |
| € million | **repayment** | **interest** | repayment | interest | repayment | interest | repayment | interest |
| **Financial liabilities** | | | | | | | | |
| Bonds | – | –13.5 | – | –13.5 | –300.0 | –33.8 | – | – |
| Liabilities to banks | –61.0 | –4.3 | –55.6 | –3.5 | –151.7 | –8.6 | –225.8 | –7.3 |
| Liabilities from finance leases | –68.8 | –34.4 | –68.2 | –32.2 | –212.5 | –83.6 | –632.5 | –84.4 |
| Financial liabilities due to non-consolidated Group companies | –5.2 | – | – | – | – | – | – | – |
| Financial liabilities due to affiliates | –8.0 | – | – | – | – | – | – | – |
| Other financial liabilities | –90.0 | – | –13.4 | – | – | – | – | – |
| Trade payables | –3,224.2 | – | – | – | – | – | – | – |
| Other liabilities | –66.2 | –12.2 | –7.5 | – | –2.7 | – | – | – |

CASH FLOW OF DERIVATIVE FINANCIAL INSTRUMENTS (30 SEP 2016)

| | Cash in-/outflow until 30 Sep | | | |
|---|---|---|---|---|
| € million | **up to 1 year** | 1–2 years | 2–5 years | more than 5 years |
| **Derivative financial instruments** | | | | |
| Hedging transactions – inflows | +7,362.3 | +1,587.1 | +345.3 | – |
| Hedging transactions – outflows | –7,062.0 | –1,531.3 | –316.0 | – |
| Other derivative financial instruments – inflows | +1,688.0 | +44.4 | +0.7 | – |
| Other derivative financial instruments – outflows | –1,714.5 | –43.0 | –0.8 | – |

CASH FLOW OF DERIVATIVE FINANCIAL INSTRUMENTS (30 SEP 2015)

| | Cash in-/outflow until 30 Sep | | | |
|---|---|---|---|---|
| € million | **up to 1 year** | 1–2 years | 2–5 years | more than 5 years |
| **Derivative financial instruments** | | | | |
| Hedging transactions – inflows | +6,865.3 | +1,620.3 | +412.1 | +0.7 |
| Hedging transactions – outflows | –7,016.7 | –1,660.1 | –423.0 | –0.7 |
| Other derivative financial instruments – inflows | +4,090.9 | +153.1 | +23.2 | – |
| Other derivative financial instruments – outflows | –3,576.0 | –150.1 | –22.4 | – |

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGES

### STRATEGY AND GOALS

In accordance with the TUI Group's policy, derivatives are allowed to be used if they are based on underlying recognised assets or liabilities, firm commitments or forecasted transactions. Hedge accounting based on the rules of IAS 39 is applied to forecasted transactions. In the financial year under review, hedges primarily consisted of cash flow hedges.

Derivative financial instruments in the form of fixed-price transactions and options as well as structured products are used to limit currency, interest rate and fuel risks.

### CASH FLOW HEDGES

As at 30 September 2016, hedges existed to manage cash flows in foreign currencies with maturities of up to five years (2015: up to six years). The fuel price hedges had terms of up to four years (2015: up to four years). There were no longer any hedges of TUI AG's floating-rate interest payment obligations.

In accounting for cash flow hedges, the effective portion of the cumulative change in market value is carried in the revaluation reserve outside profit and loss until the hedged item occurs. It is carried in the income statement through profit and loss when the hedged item is executed. In the financial year under review, income of € 40.4 m (previous year expenses of € 580.8 m) for currency hedges and derivative financial instruments used as price hedges were carried in the cost of sales. There was no result from interest hedges (previous year expenses of € 0.3 m). Income of € 1.6 m (previous year income of € 0.7 m) was carried for the ineffective portion of the cash flow hedges.

#### NOMINAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS USED

| | | | **30 Sep 2016** | | | 30 Sep 2015 |
|---|---|---|---|---|---|---|
| | Remaining term | | | Remaining term | | |
| € million | up to 1 year | more than 1 year | **Total** | up to 1 year | more than 1 year | Total |
| **Interest rate hedges** | | | | | | |
| Caps | – | 150.0 | 150.0 | 67.7 | 160.4 | 228.1 |
| Swaps | – | 25.2 | 25.2 | – | 25.2 | 25.2 |
| **Currency hedges** | | | | | | |
| Forwards | 8,924.1 | 2,006.3 | 10,930.4 | 10,261.1 | 2,109.5 | 12,370.6 |
| Options | – | – | – | 2.1 | – | 2.1 |
| Structured instruments | 63.0 | 10.9 | 73.9 | 114.5 | 113.6 | 228.1 |
| **Commodity hedges** | | | | | | |
| Swaps | 779.9 | 476.6 | 1,256.5 | 977.2 | 313.5 | 1,290.7 |
| Options | 20.7 | – | 20.7 | 37.4 | – | 37.4 |

The nominal amounts correspond to the total of all purchase or sale amounts or the contract values of the transactions.

### FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments correspond to the market values. The market price determined for all derivative financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A description of the determination of the fair values of derivative financial instruments is provided with the classification of financial instruments measured at fair value.

**POSITIVE AND NEGATIVE FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS SHOWN AS RECEIVABLES OR LIABILITIES**

| € million | 30 Sep 2016 Receivables | 30 Sep 2016 Liabilities | 30 Sep 2015 Receivables | 30 Sep 2015 Liabilities |
|---|---|---|---|---|
| Cash flow hedges for | | | | |
| currency risks | 480.7 | 104.0 | 257.5 | 96.7 |
| other market price risks | 59.0 | 115.0 | 4.9 | 347.1 |
| interest rate risks | – | – | – | – |
| Fair value hedges for | | | | |
| currency risks | – | – | – | – |
| **Hedging** | **539.7** | **219.0** | **262.4** | **443.8** |
| **Other derivative financial instruments** | **131.7** | **58.1** | **66.7** | **22.9** |
| **Total** | **671.4** | **277.1** | **329.1** | **466.7** |

Financial instruments which are entered into in order to hedge a risk position according to operational criteria but do not meet the strict criteria of IAS 39 to qualify for hedge accounting are shown as other derivative financial instruments. They include foreign currency transactions entered into in order to hedge against foreign exchange-exposure to changes in the value of balance sheet items and foreign exchange fluctuations from future expenses in Tourism.

## FINANCIAL INSTRUMENTS – ADDITIONAL DISCLOSURES

### CARRYING AMOUNTS AND FAIR VALUES

Where financial instruments are listed in an active market, e. g. shares held and bonds issued, the fair value or market value is the respective quotation in this market at the balance sheet date. For over-the-counter bonds, liabilities to banks, promissory notes and other non-current financial liabilities, the fair value is determined as the present value of future cash flows, taking account of yield curves and the respective credit spread, which depends on the credit rating.

Due to the short remaining terms of cash and cash equivalents, current trade receivables and other assets, current trade payables and other payables, the carrying amounts are taken as realistic estimates of the fair value.

The fair values of non-current trade receivables and other assets correspond to the present values of the cash flows associated with the assets, taking account of current interest parameters which reflect market- and counterparty-related changes in terms and expectations. There are no financial investments held to maturity.

**CARRYING AMOUNTS AND FAIR VALUES ACCORDING TO CLASSES AND MEASUREMENT CATEGORIES AS AT 30 SEP 2016**

| € million | **Carrying amount** | Category under IAS 39: At amortised cost | Category under IAS 39: At cost | Category under IAS 39: Fair value with no effect on profit and loss | Category under IAS 39: Fair value through profit and loss | Values according to IAS 17 (leases) | Carrying amount of financial instruments | Fair value of financial instruments |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Available for sale financial assets | 316.2 | – | 44.4 | 271.8 | – | – | 316.2 | 316.2 |
| Trade receivables and other assets | 1,635.4 | 689.7 | – | – | – | – | 689.7 | 689.7 |
| Derivative financial instruments | | | | | | | | |
| Hedging | 539.7 | – | – | 539.7 | – | – | 539.7 | 539.7 |
| Other derivative financial instruments | 131.7 | – | – | – | 131.7 | – | 131.7 | 131.7 |
| Cash and cash equivalents | 2,072.9 | 2,072.9 | – | – | – | – | 2,072.9 | 2,072.9 |
| **Liabilities** | | | | | | | | |
| Financial liabilities | 2,041.1 | 809.4 | – | – | – | 1,231.8 | 809.4 | 818.0 |
| Trade payables | 2,476.9 | 2,476.4 | – | – | – | – | 2,476.4 | 2,476.4 |
| Derivative financial instruments | | | | | | | | |
| Hedging | 219.0 | – | – | 219.0 | – | – | 219.0 | 219.0 |
| Other derivative financial instruments | 58.1 | – | – | – | 58.1 | – | 58.1 | 58.1 |
| Other liabilities | 3,032.5 | 134.2 | – | – | – | – | 134.2 | 134.2 |

**CARRYING AMOUNTS AND FAIR VALUES ACCORDING TO CLASSES AND MEASUREMENT CATEGORIES AS AT 30 SEP 2015**

| | | Category under IAS 39 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| € million | **Carrying amount** | At amortised cost | At cost | Fair value with no effect on profit and loss | Fair value through profit and loss | Values according to IAS 17 (leases) | Carrying amount of financial instruments | Fair value of financial instruments |
| **Assets** | | | | | | | | |
| Available for sale financial assets | 391.1 | – | 50.4 | 340.7 | – | – | 391.1 | 391.1 |
| Trade receivables and other assets | 2,281.2 | 1,064.7 | – | – | – | – | 1,064.7 | 1,064.7 |
| Derivative financial instruments | | | | | | | | |
| Hedging | 262.4 | – | – | 262.4 | – | – | 262.4 | 262.4 |
| Other derivative financial instruments | 66.7 | – | – | – | 66.7 | – | 66.7 | 66.7 |
| Cash and cash equivalents | 1,672.7 | 1,672.7 | – | – | – | – | 1,672.7 | 1,672.7 |
| **Liabilities** | | | | | | | | |
| Financial liabilities | 1,886.4 | 904.5 | – | – | – | 982.0 | 904.5 | 925.1 |
| Trade payables | 3,224.2 | 3,224.0 | – | – | – | – | 3,224.0 | 3,224.0 |
| Derivative financial instruments | | | | | | | | |
| Hedging | 443.8 | – | – | 443.8 | – | – | 443.8 | 443.8 |
| Other derivative financial instruments | 22.9 | – | – | – | 22.9 | – | 22.9 | 22.9 |
| Other liabilities | 3,383.5 | 152.9 | – | – | – | – | 152.9 | 152.9 |

The financial investments classified as financial assets available for sale include an amount of € 44.4 m (previous year € 50.4 m) for stakes in partnerships and corporations for which an active market does not exist. The fair value of these non-listed stakes is not determined using a measurement model since the future cash flows cannot be reliably determined. The stakes are carried at acquisition cost. In the period under review and in the previous year, there were no major disposals of stakes in partnerships and corporations measured at acquisition cost. The TUI Group does not intend to sell or derecognise the stakes in these partnerships and corporations in the near future.

**AGGREGATION ACCORDING TO MEASUREMENT CATEGORIES UNDER IAS 39 AS AT 30 SEP 2016**

| | | | Fair value | | | |
|---|---|---|---|---|---|---|
| € million | At amortised cost | At cost | with no effect on profit and loss | through profit and loss | **Carrying amount Total** | Fair value |
| Loans and receivables | 2,762.6 | – | – | – | 2,762.6 | 2,762.6 |
| Financial assets | | | | | | |
| available for sale | – | 44.4 | 271.8 | – | 316.2 | 316.2 |
| held for trading | – | – | – | 131.7 | 131.7 | 131.7 |
| Financial liabilities | | | | | | |
| at amortised cost | 3,420.0 | – | – | – | 3 420.0 | 3,428.6 |
| held for trading | – | – | – | 58.1 | 58.1 | 58.1 |

**AGGREGATION ACCORDING TO MEASUREMENT CATEGORIES UNDER IAS 39 AS AT 30 SEP 2015**

| € million | At amortised cost | At cost | Fair value: with no effect on profit and loss | Fair value: through profit and loss | **Carrying amount Total** | Fair value |
|---|---|---|---|---|---|---|
| Loans and receivables | 2,737.4 | – | – | – | 2,737.4 | 2,737.4 |
| Financial assets | | | | | | |
| available for sale | – | 50.4 | 340.7 | – | 391.1 | 391.1 |
| held for trading | – | – | – | 66.7 | 66.7 | 66.7 |
| Financial liabilities | | | | | | |
| at amortised cost | 4,281.4 | – | – | – | 4,281.4 | 4,302.0 |
| held for trading | – | – | – | 22.9 | 22.9 | 22.9 |

**FAIR VALUE MEASUREMENT**

The table below presents the fair values of recurring, non-recurring and other financial instruments measured at fair value in line with the underlying measurement level. The individual measurement levels have been defined as follows in line with the inputs:

- Level 1: (unadjusted) quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs for the measurement other than quoted market prices included within Level 1 that are observable in the market for the asset or liability, either directly (as quoted prices) or indirectly (derivable from quoted prices).
- Level 3: inputs for the measurement of the asset or liability not based on observable market data.

**CLASSIFICATION OF FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AS OF 30 SEPTEMBER 2016**

| € million | **Total** | Fair value hierarchy: Level 1 | Fair value hierarchy: Level 2 | Fair value hierarchy: Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available for sale financial assets | 271.8 | 265.8 | – | 6.0 |
| Derivative financial instruments | | | | |
| Hedging transactions | 539.7 | – | 539.7 | – |
| Other derivative financial instruments | 131.7 | – | 131.7 | – |
| **Liabilities** | | | | |
| Derivative financial instruments | | | | |
| Hedging transactions | 219.0 | – | 219.0 | – |
| Other derivative financial instruments | 58.1 | – | 58.1 | – |
| At amortised cost | | | | |
| Financial liabilities | 818.0 | 308.3 | 509.7 | – |

CLASSIFICATION OF FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AS OF 30 SEPTEMBER 2015

| € million | Total | Fair value hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Available for sale financial assets | 340.7 | – | – | 340.7 |
| Derivative financial instruments | | | | |
| Hedging transactions | 262.4 | – | 262.4 | – |
| Other derivative financial instruments | 66.7 | – | 66.7 | – |
| **Liabilities** | | | | |
| Derivative financial instruments | | | | |
| Hedging transactions | 443.8 | – | 443.8 | – |
| Other derivative financial instruments | 22.9 | – | 22.9 | – |
| At amortised cost | | | | |
| Financial liabilities | 925.1 | 314.4 | 610.7 | – |

At the end of every reporting period, TUI Group checks whether there are any reasons for reclassification to or from one of the measurement levels. Financial assets and financial liabilities are generally transferred out of Level 1 into Level 2 if the liquidity and trading activity no longer indicate an active market. The opposite situation applies to potential transfers out of Level 2 into Level 1. In the period under review, there were no transfers between Level 1 and Level 2.

Reclassifications from Level 3 to Level 2 or Level 1 are effected if observable market price quotations become available for the asset or liability concerned. TUI Group records transfers to and out of Level 3 as at the date of the obligating event or occasion triggering the transfer. The review as at 31 December 2015 due to the initial public offering of Hapag-Lloyd AG resulted in the transfer of the valuation of the stake in Hapag-Lloyd AG from Level 3 into Level 1. Other than that, there were no transfers into or out of Level 3.

#### LEVEL 1 FINANCIAL INSTRUMENTS:

The fair value of financial instruments for which an active market exists is based on quoted prices at the reporting date. An active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and these prices represent actual and regularly occurring market transactions on an arm's length basis. These financial instruments are classified as Level 1. The fair values correspond to the nominal amounts multiplied by the quoted prices at the reporting date. Level 1 financial instruments primarily comprise shares in listed companies classified as available for sale and bonds issued classified as financial liabilities at amortised cost.

#### LEVEL 2 FINANCIAL INSTRUMENTS:

The fair values of financial instruments not traded in an active market, e.g. over-the-counter (OTC) derivatives, are determined by means of valuation techniques. These valuation techniques make maximum use of observable market data and minimise the use of Group-specific assumptions. If all essential inputs for the determination of the fair value of an instrument are observable, the instrument is classified as Level 2.

If one or several key inputs are not based on observable market data, the instrument is classified as Level 3.

The following specific valuation techniques are used to measure financial instruments:

- For over-the-counter bonds, liabilities to banks, promissory notes and other non-current financial liabilities, the fair value is determined as the present value of future cash flows, taking account of yield curves and the respective credit spread, which depends on the credit rating.

- The fair value of over-the-counter derivatives is determined by means of appropriate calculation methods, e. g. by discounting the expected future cash flows. The forward prices of forward transactions are based on the spot or cash prices, taking account of forward premiums and discounts. The calculation of the fair values of options concluded for currency options is based on the Black & Scholes model and the Turnbull & Wakeman model for optional fuel hedges. The fair values determined on the basis of the Group's own systems are periodically compared with fair value confirmations of the external counterparties.
- Other valuation techniques, e. g. discounting future cash flows, are used to determine the fair values of other financial instruments.

**LEVEL 3 FINANCIAL INSTRUMENTS:**
The table below presents the fair values of the financial instruments measured at fair value on a recurring basis, classified as Level 3:

**FINANCIAL ASSETS MEASURED AT FAIR VALUE IN LEVEL 3**

| € million | Available for sale financial assets |
|---|---|
| **Balance as at 1 October 2014** | **5.5** |
| Additions (incl. Transfers) | 481.9 |
| Total gains or losses for the period | –146.7 |
| recognised throug profit or loss | –147.1 |
| recognised in other comprehensive income | 0.4 |
| **Balance as at 30 September 2015** | **340.7** |
| **Change in unrealised gains or losses for the period for financial assets held at the balance sheet date** | **–147.1** |
| **Balance as at 1 October 2015** | **340.7** |
| Additions (incl. Transfers) | – |
| Disposals | – |
| repayment / sale | – |
| conversion / rebooking | 334.9 |
| Total gains or losses for the period | 0.2 |
| recognised throug profit or loss | 0.2 |
| recognised in other comprehensive income | – |
| **Balance as at 30 September 2016** | **6.0** |
| **Change in unrealised gains or losses for the period for financial assets held at the balance sheet date** | **–** |

The disposals caused by reclassification into Level 1 of the measurement hierarchy relate to the investment in Hapag-Lloyd AG, for which observable input parameters have existed since the IPO on 6 November 2015. Detailed information is provided in Note 18 "Financial assets available for sale".

### EFFECTS ON RESULTS

The effects of the measurement of financial assets available for sale outside profit and loss and the effective portions of changes in fair values of derivatives designated as cash flow hedges are listed in the statement of changes in equity.

The net results of the financial instruments by measurement category according to IAS 39 are as follows:

**NET RESULTS OF FINANCIAL INSTRUMENTS**

| | | | **2015 / 16** | | | 2014 / 15 |
|---|---|---|---|---|---|---|
| € million | **from interest** | **other net results** | **net result** | from interest | other net results | net result |
| Loans and receivables | – 6.4 | 263.1 | 256.7 | –13.0 | 80.1 | 67.1 |
| Available for sale financial assets | – | – 99.2 | – 99.2 | – | –141.3 | –141.3 |
| Financial assets and liabilities held for trading | – 0.6 | – 9.2 | – 9.8 | –142.0 | 98.6 | – 43.4 |
| Financial liabilities at amortised cost | – 44.2 | – 25.5 | – 69.7 | – 49.5 | – 82.6 | –132.1 |
| **Total** | **– 51.2** | **129.2** | **78.0** | **– 204.5** | **– 45.2** | **– 249.7** |

Other net result of available for sale financial assets comprises the impairment of the stake in Hapag-Lloyd AG of € 100.3 m.

In addition, it includes results from participations, gains and losses on disposal, effects of fair value measurements and impairments as well as interest income and interest expenses.

Financial instruments measured at fair value outside profit and loss did not give rise to any commission expenses in financial year 2015 / 16, just as in the previous year.

### NETTING

The following financial assets and liabilities are subject to contractual netting arrangements:

**OFFSETTING – FINANCIAL ASSETS**

| | | | | Related amounts not set off in the balance sheet | | |
|---|---|---|---|---|---|---|
| € million | Gross Amounts of financial assets | Gross amounts of recognised financial liabilities set off | **Net amounts of financial assets presented in the balance sheet** | Financial liabilities | Cash Collateral received | Net Amount |
| **Financial assets as at 30 Sep 16** | | | | | | |
| Derivative financial assets | 671.4 | – | 671.4 | 277.1 | – | 394.3 |
| Cash and cash equivalents | 4,917.8 | 2,844.9 | 2,072.9 | – | – | 2,072.9 |
| **Financial assets as at 30 Sep 15** | | | | | | |
| Derivative financial assets | 329.1 | – | 329.1 | 56.5 | – | 272.6 |
| Cash and cash equivalents | 5,556.3 | 3,883.6 | 1,672.7 | – | – | 1,672.7 |

**OFFSETTING – FINANCIAL LIABILITIES**

| € million | Gross Amounts of financial liabilities | Gross amounts of recognised financial assets set off | **Net amounts of financial liabilities presented in the balance sheet** | Related amounts not set off in the balance sheet: Financial assets | Related amounts not set off in the balance sheet: Cash Collateral granted | Net Amount |
|---|---|---|---|---|---|---|
| **Financial liabilities as at 30 Sep 16** | | | | | | |
| Derivative financial liabilities | 277.1 | – | 277.1 | 277.1 | – | – |
| Financial liabilities | 4 886.0 | 2,844.9 | 2,041.1 | – | – | 2,041.1 |
| **Financial liabilities as at 30 Sep 15** | | | | | | |
| Derivative financial liabilities | 466.7 | – | 466.7 | 56.5 | – | 410.2 |
| Financial liabilities | 5,770.0 | 3,883.6 | 1,886.4 | – | – | 1,886.4 |

Financial assets and financial liabilities are only netted in the balance sheet if a legally enforceable right to netting exists and the company intends to settle on a net basis.

The contracts for financial instruments are based on standardised master agreements for financial derivatives (including ISDA Master Agreement, German master agreement for financial derivatives), creating a conditional right to netting contingent on defined future events. Under the contractual agreements all derivatives contracted with the corresponding counterparty with positive or negative fair values are netted in that case, resulting in a net receivable or payable in the amount of the balance. As this conditional right to netting is not enforceable in the course of ordinary business transactions, the derivative financial assets and liabilities are carried at their gross amounts in the balance sheet date at the reporting date.

Financial assets and liabilities in the framework of the cash pooling scheme are shown on a net basis if there is a right to netting in ordinary business transactions and the Group intends to settle on a net basis.

## (44) Capital risk management

One of the key performance indicators in the framework of capital risk management is the IFRS-based gearing, i. e. the relationship between the Group's net debt and Group equity. From a risk perspective, a balanced relation between net debt and equity is sought. TUI Group therefore strives for an appropriate ratio between net debt and equity.

In order to exert active control over the capital structure, the TUI Group's management may change dividend payments to the shareholders, repay capital to the shareholders, issue new shares or issue hybrid capital. The management may also sell assets in order to reduce Group debt.

**GEARING CALCULATION**

| € million | | **2015 / 16** | 2014 / 15 |
|---|---|---|---|
| Average financial debt | | 2,396.3 | 2,308.5 |
| Average cash and cash equivalent | | 1,425.8 | 1,346.7 |
| **Average Group net debt** | | **970.5** | **961.8** |
| Average Group equity | | 2,314.8 | 1,976.0 |
| **Gearing** | % | **41.9** | **48.7** |

# Notes on the cash flow statement

The cash flow statement shows the flow of cash and cash equivalents separately for cash inflows and outflows from operating, investing and financing activities. The effects of changes in the group of consolidated companies are eliminated. The cash flows are shown for the continuing operations and the discontinued operation.

In the reporting period, cash and cash equivalents rose by € 721.4 m to € 2,403.6 m, including an amount of € 330.7 m carried as assets held for sale.

## (45) Cash inflow / outflow from operating activities

Based on the Group result after tax, the cash flow from operating activities is derived using the indirect method. In the financial year under review, the cash inflow from operating activities amounted to € 1,034.7 m (previous year € 790.5 m).

In the period under review, the cash inflow included interest of € 21.1 m and dividends of € 84.7 m. Income tax payments resulted in a cash outflow of € 186.4 m. In contrast, tax payments of € 94.9 relating to the sale of Hotelbeds Group, were carried under cash outflows from investing activities.

## (46) Cash inflow / outflow from investing activities

In financial year 2015 / 16, the cash inflow from investing activities totalled € 239.0 m (previous year outflow of € 216.8 m).

The cash flow from investing activities includes a cash outflow for capital expenditure related to property, plant and equipment and intangible assets of € 605.6 m, including € 243.1 m for tour operators and airlines and € 262.3 m for Hotels & Resorts. The Group also recorded a cash inflow of € 72.2 m from the sale of property, plant and equipment, primarily a British cruise ship, a hotel in Majorca, several properties in Germany and a French tour operator brand. The cash outflow for investments in property, plant and equipment and intangible assets and the cash inflow from corresponding divestments do not match the additions and disposals shown in the development of fixed assets, which also include non-cash investments and disposals.

In the financial year under review, the sale of Hotelbeds Group generated a cash inflow of € 867.9 m after deduction of income tax and consultancy costs and cash and cash equivalents of the consolidated companies sold (€ 254.1 m). A further € 19.3 m for consultancy services were only payable after the balance sheet date and will therefore be shown in the cash outflow from investing activities for the next financial year.

A net cash inflow of € 20.3 m after deducting cash and cash equivalents of the sold companies of € 0.8 m resulted from the sale of other subsidiaries and joint ventures. In the prior year, the sale of shares in the money market fund had caused an inflow of € 300.0 m.

In financial year 2015 / 16, a cash outflow of € 8.2 m resulted from acquisitions of consolidated companies. This amount includes payments of € 4.0 for acquisitions made in prior years. Cash and cash equivalents acquired through the acquisitions total € 1.2 m so that the total cash outflow amounted to € 7.0 m.

The cash outflow for other assets includes an amount of € 56.2 m for capital increases in joint ventures.

## (47) Cash inflow / outflow from financing activities

The cash outflow from financing activities totals € 662.1 m (previous year € 1,116.7 m).

The segment Hotels & Resorts has taken out financial liabilities worth € 47.8 m, while other tourism companies have taken out € 11.0 m. A further € 43.7 m have been taken out to refinance an aircraft. The Group repaid finance lease liabilities worth € 78.1 m and other financial liabilities worth € 197.3 m. Interest payments were a cash outflow of € 92.3 m. Further outflows relate to the dividends for TUI AG shareholders (€ 327.0 m) and minority shareholders (€ 14.1 m). The employee benefit trust of TUI Travel Ltd. has purchased shares in TUI AG worth € 56.3 m in order to use them for stock option plans. A cash outflow of € 8.0 m resulted from the increase in stakes in consolidated companies.

The amounts drawn from the external revolving credit facility to manage the seasonality of the Group's cash flows and liquidity in the financial year under review have meanwhile been fully repaid. The significantly higher cash outflow shown for the previous year primarily resulted from the redemption of TUI AG's perpetual subordinated bond of € 300.0 m and the repayment of a bank liability of € 195.3 m in connection with the merger between TUI AG and TUI Travel PLC.

## (48) Development of cash and cash equivalents

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

The change in cash and cash equivalents driven by changes in the group of consolidated companies shows the increase in the Group's cash and cash equivalents caused by the merger of a previously non-consolidated company with a consolidated company.

At 30 September 2016, cash and cash equivalents of € 128.6 m were subject to restrictions. They included an amount of € 116.3 m for cash collateral received, which was deposited in a Belgian subsidiary by Belgian tax authorities in financial year 2012 / 13 in the framework of long-standing litigation over VAT refunds for the years 2001 to 2011 without admission of guilt, the purpose being to suspend the accrual of interest for both parties. In order to collateralise a potential repayment, the Belgian government was granted a bank guarantee. Due to the bank guarantee, TUI's ability to dispose of the cash and cash equivalents has been restricted. The remaining restrictions relate to cash and cash equivalents deposited to meet legal or regulatory requirements.

# Other notes

## (49) Significant transactions after the balance sheet date

On 26 October 2016, TUI AG issued a fixed-interest bond with a coupon of 2.125 % p.a. and a nominal volume of € 300.0 m. The bond was issued at a price of 99.415 % in denominations with nominal values of € 100,000. It will mature on 26 October 2021.

On 18 November 2016, TUI AG redeemed the fixed-interest bond with a nominal volume of € 300.0 m issued on 26 September 2014, originally maturing on 1 October 2019, ahead of maturity. The bond was redeemed at a price of 102.25 % plus accrued interest. The cash inflow of € 298.2 m received by TUI AG from issuing the bond on 26 October 2016 was used to redeem the bond.

On 21 June 2016, TUI had concluded an agreement with Transat A. T. Inc. to acquire the tour operator Transat France S. A., France, and its subsidiaries for a purchase price of € 64.9 m. Following regulatory approvals, the acquisition was completed on 31 October 2016. For further details on the acquisition, please refer to the section "Acquisitions – Divestments – Discontinued Operations".

On 23 November 2016, the supervisory board of TUI AG approved the agreement of a term sheet with Etihad Aviation Group. This agreement is the basis for the acquisition of a minority share in a company through the contribution of the shares in TUIfly GmbH. The Etihad Aviation Group will also invest in this company. It is assumed that the minority share will be accounted for at equity. It is expected that the contractual negotiations will be finalised within the next few weeks. The transaction is subject to approval by the relevant aviation and competition authorities.

## (50) Services of the auditors of the consolidated financial statements

TUI AG's consolidated financial statements are audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. Since 30 September 2013 they have been signed by Thomas Stieve, the auditor in charge. Total expenses for the services provided by the auditors of the consolidated financial statements in financial year 2015 / 16 break down as follows:

SERVICES OF THE AUDITORS OF THE CONSOLIDATED FINANCIAL STATEMENTS

| € million | **2015 / 16** | 2014 / 15 |
|---|---|---|
| Audit fees for TUI AG and subsidiaries in Germany | 3.0 | 2.9 |
| **Audit fees** | **3.0** | **2.9** |
| Review of interim financial statements | 1.1 | 1.0 |
| Other audit related services | 0.1 | 0.3 |
| **Other certification and measurement services** | **1.2** | **1.3** |
| Consulting fees | 0.7 | 2.3 |
| Tax advisor services | 0.2 | 0.1 |
| **Other services** | **0.9** | **2.4** |
| **Total** | **5.1** | **6.6** |

## (51) Remuneration of Executive and Supervisory Board members

In the financial year under review, the remuneration paid to Executive Board members totalled € 4,720.6 thousand (previous year € 2,829.0 thousand).

Remuneration for former Executive Board members or their surviving dependants totalled € 4,933.2 thousand (previous year € 4,891.1 thousand) in the financial year under review. Pension obligations for former Executive Board members and their surviving dependants amounted to € 84,294.2 thousand (previous year € 79,754.3 thousand) at the balance sheet date.

Disclosures of the relevant amounts for individual Board members and further details on the remuneration system are provided in the Remuneration Report included in the Management Report.

## (52) Exemption from disclosure and preparation of a management report in accordance with section 264 (3) of the German Commercial Code (HGB)

The following German subsidiaries fully included in consolidation have met the condition required under section 264 (3) of the German Commercial Code and were therefore exempted from the requirement to disclose their annual financial statements and prepare a management report:

- Atraveo GmbH, Düsseldorf
- Berge & Meer Touristik GmbH, Rengsdorf
- DEFAG Beteiligungsverwaltungs GmbH I, Hanover
- DEFAG Beteiligungsverwaltungs GmbH III, Hanover
- FOX-TOURS Reisen GmbH, Rengsdorf
- Hapag-Lloyd Executive GmbH, Langenhagen
- Hapag-Lloyd Cruises GmbH, Hamburg
- Last-Minute-Restplatzreisen GmbH, Baden-Baden
- Leibniz Service GmbH, Hanover
- L'tur tourismus Aktiengesellschaft, Baden-Baden
- Master-Yachting GmbH, Eibelstadt
- MEDICO Flugreisen GmbH, Baden-Baden
- MSN 1359 GmbH, Hanover
- Preussag Beteiligungsverwaltungs GmbH IX, Hanover
- Preussag Immobilien GmbH, Salzgitter
- ProTel Gesellschaft für Kommunikation mbH, Rengsdorf
- Robinson Club GmbH, Hanover
- TCV Touristik-Computerverwaltungs GmbH, Baden-Baden
- TICS GmbH Touristische Internet und Call Center Services, Baden-Baden
- TUI 4 U GmbH, Bremen
- TUI aqtiv GmbH, Hanover
- TUI Aviation GmbH, Hanover
- TUI Beteiligungs GmbH, Hanover
- TUI Business Services GmbH, Hanover
- TUI Connect GmbH, Hanover
- TUI Customer Operations GmbH, Hanover
- TUI Group Services GmbH, Hanover
- TUI-Hapag Beteiligungs GmbH, Hanover
- TUI Hotel Betriebsgesellschaft mbH, Hanover
- TUI InfoTec GmbH, Hanover
- TUI Leisure Travel Service GmbH, Neuss
- TUI Magic Life GmbH, Hanover
- TUIfly Vermarktungs GmbH, Hanover
- Wolters Reisen GmbH, Stuhr

## (53) Related parties

Apart from the subsidiaries included in the consolidated financial statements, TUI AG, in carrying out its ordinary business activities, maintains indirect or direct relationships with related parties. Related parties controlled by the TUI Group or over which the TUI Group is able to exercise a significant influence are listed in the list of shareholdings published in the electronic Federal Gazette (www.ebanz.de). Apart from pure equity investments, related parties also include companies that supply goods or provide services for TUI Group companies.

Financial obligations from order commitments vis-à-vis related parties primarily relate to the purchasing of hotel services. TUI Group also has obligations of € 613.2 m (previous year € 877.2 m) from order commitments vis-à-vis the related company TUI Cruises, resulting from finance leases for cruise ships.

In addition, there are obligations of € 8.4 m (previous year € 15.1 m) from rental and lease agreements.

### TRANSACTIONS WITH RELATED PARTIES

| € million | 2015/16 | 2014/15 restated |
|---|---|---|
| **Services provided by the Group** | | |
| Management and consultancy services | 93.2 | 84.6 |
| Sales of tourism services | 62.2 | 92.7 |
| Other services | 1.3 | 0.6 |
| **Total** | **156.7** | **177.9** |
| **Services received by the Group** | | |
| In the framework of lease, rental and leasing agreements | 33.2 | 31.6 |
| Purchase of hotel services | 224.8 | 254.0 |
| Distribution services | 8.8 | 8.7 |
| Other services | 9.0 | 20.8 |
| **Total** | **275.8** | **315.1** |

### TRANSACTIONS WITH RELATED PARTIES

| € million | 2015/16 | 2014/15 restated |
|---|---|---|
| **Services provided by the Group to** | | |
| non-consolidated Group companies | 0.5 | 1.5 |
| joint ventures | 72.9 | 96.9 |
| associates | 29.7 | 34.6 |
| other related parties | 53.6 | 44.9 |
| **Total** | **156.7** | **177.9** |
| **Services received by the Group from** | | |
| non-consolidated Group companies | 6.1 | 7.0 |
| joint ventures | 224.1 | 249.9 |
| associates | 34.3 | 46.4 |
| other related parties | 11.3 | 11.8 |
| **Total** | **275.8** | **315.1** |

Transactions with joint ventures and associates are recognised in the tourism business. They relate mainly to the tourism services of the hotel companies used by the Group's tour operators.

All transactions with related parties are executed on an arm's length basis, based on international comparable uncontrolled price methods in accordance with IAS 24.

**RECEIVABLES AGAINST RELATED PARTIES**

| € million | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|
| **Trade receivables from** | | |
| non-consolidated Group companies | 1.7 | 1.5 |
| joint ventures | 10.4 | 20.6 |
| associates | 3.9 | 4.7 |
| other related parties | 0.5 | 0.9 |
| **Total** | **16.5** | **27.7** |
| **Advances and loans to** | | |
| non-consolidated Group companies | 17.8 | 17.4 |
| joint ventures | 3.2 | 34.0 |
| associates | 5.6 | 7.6 |
| **Total** | **26.6** | **59.0** |
| **Payments on account to** | | |
| joint ventures | 0.4 | 11.7 |
| **Total** | **0.4** | **11.7** |
| **Other receivables from** | | |
| non-consolidated Group companies | 1.6 | 1.7 |
| joint ventures | 3.3 | 10.7 |
| associates | 2.9 | 7.3 |
| **Total** | **7.8** | **19.7** |

**PAYABLES DUE TO RELATED PARTIES**

| € million | **30 Sep 2016** | 30 Sep 2015 |
|---|---|---|
| **Trade payables due to** | | |
| non-consolidated Group companies | 1.0 | 5.8 |
| joint ventures | 23.0 | 32.3 |
| associates | 2.5 | 4.9 |
| other related parties | 0.1 | – |
| **Total** | **26.6** | **43.0** |
| **Financial liabilities due to** | | |
| non-consolidated Group companies | 6.6 | 5.2 |
| joint ventures | 192.1 | 8.0 |
| **Total** | **198.7** | **13.2** |
| **Other liabilities due to** | | |
| non-consolidated Group companies | 7.5 | 3.6 |
| joint ventures | 13.5 | 28.8 |
| associates | 5.6 | 8.3 |
| other related parties | 8.5 | 4.2 |
| **Total** | **35.1** | **44.9** |

Liabilities to related parties included liabilities from finance leases of € 184.1 m (previous year none).

The share of result of associates and joint ventures is shown separately by segment in segment reporting.

The Russian entrepreneur Alexey Mordashov, chief operating officer of ZAO Sever Group, member of the supervisory board of TUI AG since February 2016, holds 19.3 % of the shares in TUI AG at the balance sheet date.

For details on the change of TUI's interest in TUI Russia please refer to Note 17.

The joint venture Riu Hotels S. A. holds 3.4 % of the shares in TUI AG at the balance sheet date. Luis Riu Güell and Carmen Riu Güell (member of the Supervisory Board of TUI AG) hold a stake of 51 % in Riu Hotels S. A.

A family member of a member of the supervisory board is employed by TUI. The remuneration corresponds to the remuneration of other employees in a similar position and is based on the internal remuneration guidelines of the TUI Group.

In accordance with IAS 24, key management functions within the Group, the Executive Board and the Supervisory Board are related parties whose remuneration has to be listed separately.

**REMUNERATION OF EXECUTIVE AND SUPERVISORY BOARD**

| € million | **2015 / 16** | 2014 / 15 |
|---|---|---|
| Short-term benefits | 14.4 | 13.8 |
| Post-employment benefits | 3.0 | 3.9 |
| Other long-term benefits (share-based payments) | 7.9 | 8.3 |
| Termination benefits | 6.6 | 2.3 |
| **Total** | **31.9** | **28.3** |

Post-employment benefits are transfers to or reversals of pension provisions for Executive Board members active in the period under review. The expenses mentioned do not meet the definition of remuneration for Executive and Supervisory Board members under German accounting rules.

Pension provisions for active Executive Board members total € 13.7 m (previous year € 10.7 m) as at the balance sheet date.

In addition, accruals and liabilities of € 8.6 m (previous year € 6.9 m) are recognised relating to the long-term incentive programme.

## (54) International Financial Reporting Standards (IFRS) not yet applied

**NEW STANDARDS ENDORSED BY THE EU, BUT APPLICABLE AFTER 30 SEP 2016**

| Standard | Applicable from | Expected amendments | Expected impact on financial statements |
|---|---|---|---|
| **IFRS 11** Accounting for Acquisitions of Interests in Joint Operations | 1 Jan 2016 | The amendments specify how to account for the acquisition of an interest in a Joint Operation that constitutes a 'business' (as defined in IFRS 3). Accordingly, the acquirer has to measure identifiable assets and liabilities at fair value, recognise acquisition-related costs as expenses, recognise deferred tax assets and liabilities and capitalise any residual amounts as goodwill. Furthermore, the disclosure requirements of IFRS 3 apply. The amendments are to be applied prospectively. | Not material |
| **IAS 16 & IAS 38** Clarification of Acceptable Methods of Depreciation and Amortisation | 1 Jan 2016 | The amendment clarifies when a method of depreciation or amortisation based on revenue may be appropriate. According to it, depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate, amortisation based on revenue for intangible assets only in exceptional cases. The amendments are to be applied prospectively. | None |
| **IAS 16 & IAS 41** Agriculture: Bearer Plants | 1 Jan 2016 | Bearer plants that bear biological assets for more than one period without being an agricultural product themselves, such as grape vines or olive trees, have this far been measured at fair value.<br>In future, bearer plants will be treated as property, plant and equipment in scope of IAS 16 and are to be measured at amortised cost. By contrast, the produce growing on bearer plants will continue to be measured at fair value in accordance with IAS 41. | None |
| **IAS 27** Equity Method in separate Financial Statements | 1 Jan 2016 | Application of the equity method in separate financial statements to account for investments in subsidiaries, joint ventures and associates is permitted again. The option to account for such interests in accordance with IAS 39 or at cost remains intact. | Not relevant to TUI AG as no separate IFRS financial statements are prepared. |
| **Various** Improvements to IFRS (2012 – 2014) | 1 Jan 2016 | The amendments from the Annual Improvements Project comprise changes to four standards: IAS 19, IAS 34, IFRS 5 and IFRS 7. The amendments introduce minor changes to the content as well as clarifications regarding recognition, presentation and measurement. | Not material |
| **IAS 1** Disclosure Initiative | 1 Jan 2016 | The amendments address the application of materiality when presenting the components of financial statements. The standard no longer prescribes a particular order of the notes so that the order of the notes may reflect the individual relevance for the company. The amendments clarify that immaterial disclosures are not required. This also applies if disclosure is required by another standard. Furthermore, the presentation of an entity's share of other comprehensive income of equity-accounted associates and joint ventures in the statement of comprehensive income is clarified. | Not material |
| **IAS 28, IFRS 10 & IFRS 12** Investment entities: Applying the Consolidation Exception | 1 Jan 2016 | The amendments clarify which subsidiaries of investment entities have to be consolidated and which subsidiaries are to be carried at fair value. The amendments are to be applied prospectively. | Not relevant |
| **IFRS 15** Revenue from Contracts with Customers | 1 Jan 2018 | IFRS 15 combines and supersedes the guidance on revenue recognition comprised in various standards and interpretations so far. It establishes a single, comprehensive framework for revenue recognition, to be applied across industries and for all categories of revenue transactions, specifying which amount of revenue and at which point in time or over which time period revenue is to be recognised. IFRS 15 replaces, amongst others, IAS 18 Revenue and IAS 11 Construction Contracts. | TUI has not yet completed the analysis and implementation of IFRS 15. IFRS 15 can have a material effect on the Group's financial statements. The possible effects are explained below. |
| **IFRS 9** Financial Instruments | 1 Jan 2018 | The new standard replaces current the IAS 39 guidance on classification and measurement of financial assets and introduces new rules for hedge accounting. The existing impairment rules are being superseded by a new model based on expected credit losses. | TUI is currently assessing the effects on the Group's financial statements. The likely effects are explained below. |

Management is currently assessing the effects of IFRS 15 Revenue from Contracts with Customers in a Group-wide project to implement the new requirements. The areas likely to be principally affected by the new rules are:

- Multiple element arrangements: Depending on whether various performance obligations towards a customer represent distinct separate performance obligations or a single performance obligation in the context of the contract, there is the possibility that the revenue recognition pattern for some business models in the tour operating business (package holiday, modular travel offerings, dynamic packaging) may be required to change. Currently a sizeable part of revenues in the tour operating business is being recognised at tour start date. For some business models the new requirements may lead to revenues being recognised at different points in time or for different amounts.
- Travel agency commissions: The point at which travel agencies in the tour operator business are to recognise the agency commission receivable from the arrangement of touristic service contracts is to be re-evaluated.
- Principal versus agent: In the evaluation whether TUI renders some services acting as a principal (gross revenue) or as an agent (net revenue), there is the possibility that more business models in the tour operating business will result in a net revenue presentation in the future.
- Disclosures: The new requirements demand a significant extension of qualitative and quantitative information to be disclosed in the notes.

At this stage, a reliable estimate of the effects of the new rules is not yet possible. TUI intends to make a more detailed assessment of the effects over the next 12 months. The Group will not adopt the new standard before 1 October 2018.

**NEW STANDARDS NOT YET ENDORSED BY THE EU AND APPLICABLE AFTER 30 SEP 2016**

| Standard | Applicable from | Expected amendments | Expected impact on financial statements |
|---|---|---|---|
| **Amendments to IAS 7** Disclosure Initiative | 1 Jan 2017 | The amendments will enable users of financial statements to better evaluate changes in liabilities arising from financing activities. An entity is required to disclose additional information about cash flows and non-cash changes in liabilities, for which cashflows are classified as financing activities in the statement of cashflows. | TUI expects the amendments to result in additional disclosures. |
| **Amendments to IAS 12** Recognition of Deferred Tax Assets for Unrealised Losses | 1 Jan 2017 | The amendments address the recognition of deferred tax assets for unrealised losses on available for sale financial instruments. The amendments clarify that an entity recognises deferred tax assets for deductible temporary differences resulting from unrealised losses on debt instruments measured at fair value if it has the ability and the intent to hold these instruments to maturity. Furthermore, it is clarified, that when assessing the recoverability of deferred tax assets, the tax deduction from the reversal of those deferred tax assets is excluded from estimated future taxable profit used in that evaluation, unless there are sufficient adequate deferred tax liabilities available. | Not material |
| **Amendments to IFRS 2** Classification and Measurement of Share-Based Payments | 1 Jan 2018 | The amendments clarify that the measurement of cash-settled, share-based payments which include vesting and non-vesting conditions should follow an approach consistent with that used for the measurement for equity-settled share-based payments. In addition, they set out guidance how to account for modifications that change the transaction from a cash-settled to an equity-settled share-based payment. The amendments also introduce an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where a company is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. | Not material |
| **Clarifications to IFRS 15** Revenue from Contracts with Customers | 1 Jan 2018 | The amendments comprise clarifications of the guidance on identifying performance obligations, the principal versus agent assessment (i.e., gross vs. net revenue presentation) as well as the accounting for revenue from licences at a 'point in time' or 'over time'. In addition, it introduces practical expedients to simplify first-time adoption. | IFRS 15 and the clarifications to IFRS 15 may significantly affect the Group's financial statements. The possible effects are explained above. |
| **IFRS 4** Applying IFRS 9 jointly with IFRS 4 | 1 Jan 2019 | The amendments to IFRS 4 affect the first time adoption of IFRS 9 for insurance companies. | The amendments are not relevant for TUI. |
| **IFRS 16** Leases | 1 Jan 2019 | IFRS 16 replaces the current IAS 17 and its interpretations. For lessees, there is no longer the requirement to classify into finance and operating leases. Instead all leases are accounted for according to the so-called 'Rights of Use' approach. In the statement of financial position a lessee is to recognise an asset for the right to use the leased item and a liability for the future lease payments. There is a optional exemption for short-term leases (< 12 months) and small-ticket leases. For lessors, the accounting stays largely unchanged. Lessors will continue to classify leases in accordance with the criteria transfered from IAS 17. Early application is permitted, but only in conjunction with IFRS 15. | The new standard will have significant effects on the Group's financial statements. The likely effects are explained below. |

TUI is currently assessing the effects of applying IFRS 9 Financial Instruments on the Group's financial statements. In principle, TUI expects the following effects:

- There will be no significant impact resulting from the reclassification of financial assets based on the business model for managing those financial assets and the related contractual cash flows. The financial assets currently carried at amortised cost satisfy the conditions for classification at amortised cost under IFRS 9. For the instruments currently classified as available for sale an election to classify as at fair value through other comprehensive income (FVOCI) is available.
- The transition of impairments from the Incurred-loss model to the new Expected-loss model is expected to result in an impact of first-time application. For the majority of financial assets TUI will be able to make use of a simplification offered by the standard, the so-called Full-Lifetime-Expected-Loss Model, in which all expected impairment losses are considered at first recognition. For touristic loans the Expected-Loss model will be applicable.
- There will be no impact on the accounting of financial liabilities. The new requirements only affect the accounting for such financial liabilities which were designated at fair value through profit or loss. The Group does not currently make use of this so-called fair value option.
- The new hedge accounting requirements will give TUI the opportunity to align the accounting for hedge relationships more closely with the Group's economic risk management. While the Group is yet to undertake a detailed evaluation of the hedge relationships, it appears as if the current hedge relationship would qualify as continuing hedge relationships upon the first-time application of IFRS 9. Therefore, TUI does not currently expect an impact on the accounting for its hedge relationships.

A reliable estimate of the quantitative impact is not yet possible at this stage. TUI intends to complete the detailed evaluation of the effects over the next twelve months. The Group does not expect to adopt IFRS 9 early at this point in time.

IFRS 16 Leases will have a significant impact on the Group's financial statement as well as the presentation of the net assets, financial position and earnings of the Group:

- Statement of financial position: Obligations from operating leases currently require disclosure in the notes to the financial statements. In future the rights and obligations will be recognised as right-of-use assets and lease liabilities in the statement of financial position. In view of the existing obligations from operating leases shown in section 41 TUI expects a significant increase in lease liabilities and in items of property, plant and equipment when it adopts the new standard. Due to this increase in total assets the equity ratio will decline. Due to the increase in lease liabilities the net financial liabilities will increase correspondingly.
- Income statement: For operating leases a lessee will recognise depreciation or amortisation and interest expenses instead of lease rental expenses in the future. This change will result in a significant improvement of the key financial measures EBITDA and EBITA as well as an improvement of the key financial measure EBIT.
- Statement of cash flows: The change in presentation of the lease expenses from operating leases will result in an improvement of the cash flows from operating activities and a decrease of the cash flows from financing activities.

TUI has set up a Group-wide project to evaluate the impact of applying the new requirements. Before completion of this project a reliable estimate of the quantitative effects is not possible. TUI does not intend to apply the new standard before 1 October 2019.

## (55) TUI Group Shareholdings

Disclosure of the TUI Group's shareholdings ist required under section 313 of the German Commercial Trading Act. Comparative information for the prior-year reference period is therefore not provided.

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| **Consolidated companies** | | |
| **Tourism** | | |
| "MAGIC LIFE" Assets AG, Vienna | Austria | 100 |
| Abbey International Insurance PCC Limited, Qormi | Malta | 100 |
| Absolut Holding Limited, Luqa | Malta | 99.9 |
| Adehy Limited, Dublin | Ireland | 100 |
| Aeolos Malta Ltd., Pieta | Malta | 100 |
| Aeolos Travel LLP, Nicosia | Cyprus | 100 |
| AMP Management Ltd., Crawley | United Kingdom | 100 |
| Anse Marcel Riusa II SNC, Paris | France | 100 |
| Apart Hotel Zarevo EOOD, Varna | Bulgaria | 100 |
| aQi Hotel Schladming GmbH, Bad Erlach | Austria | 100 |
| Arccac Eurl, Bourg St. Maurice | France | 100 |
| atraveo GmbH, Düsseldorf | Germany | 100 |
| Berge & Meer Touristik GmbH, Rengsdorf | Germany | 100 |
| Boomerang-Reisen GmbH, Trier | Germany | 100 |
| Boomerang-Reisen Vermögensverwaltungs GmbH, Trier | Germany | 75 |
| Brunalp SARL, Venosc | France | 100 |
| BU RIUSA II EOOD, Sofia | Bulgaria | 100 |
| Cabotel-Hoteleria e Turismo Lda., Santiago | Cape Verde | 100 |
| Callers-Pegasus Pension Trustee Ltd., Crawley | United Kingdom | 100 |
| Club Hôtel Management Tunisia SARL, Djerba | Tunisia | 100 |
| Corsair S.A., Rungis | France | 100 |
| Crystal Holidays Ltd., Crawley | United Kingdom | 100 |
| Crystal Holidays, Inc, Wilmington (Delaware) | United States of America | 100 |
| Crystal International Travel Group Ltd., Crawley | United Kingdom | 100 |
| Daidalos Hotel- und Touristikunternehmen A.E., Athens | Greece | 89.8 |
| Dominicanotel S.A., Puerto Plata | Dominican Republic | 100 |
| Egyptian Germany Co. for Hotels (L.T.D), Cairo | Egypt | 66.6 |
| Elena SL, Palma de Mallorca | Spain | 100 |
| Entreprises Hotelières et Touristiques PALADIEN Lena Mary S.A., Argolis | Greece | 100 |
| Europa 2 Ltd, Valletta | Malta | 100 |
| Explorers Travel Club Limited, Crawley | United Kingdom | 100 |
| Falcon Leisure Group (Overseas) Limited, Crawley | United Kingdom | 100 |
| First Choice (Turkey) Limited, Crawley | United Kingdom | 100 |
| First Choice Airways Limited, Crawley | United Kingdom | 100 |
| First Choice Holiday Hypermarkets Limited, Crawley | United Kingdom | 100 |
| First Choice Holidays & Flights Limited, Crawley | United Kingdom | 100 |
| First Choice Land (Ireland) Limited, Dublin | Ireland | 100 |
| First Choice Travel Shops (SW) Limited, Crawley | United Kingdom | 100 |
| First Choice Travel Shops Limited, Crawley | United Kingdom | 100 |
| Follow Coordinate Hotels Portugal Unipessoal Lda, Albufeira Freguesia | Portugal | 100 |
| FOX-TOURS Reisen GmbH, Rengsdorf | Germany | 100 |
| Fritidsresor AB, Stockholm | Sweden | 100 |
| Fritidsresor Tours & Travels India Pvt Ltd, Bardez, Goa | India | 100 |
| GEAFOND Número Dos Fuerteventura S.A., Las Palmas, Gran Canaria | Spain | 100 |
| GEAFOND Número Uno Lanzarote S.A., Las Palmas, Gran Canaria | Spain | 100 |
| Groupement Touristique International S.A.S., Lille | France | 100 |

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| Hannibal Tour SA, Tunis | Tunisia | 100 |
| Hapag-Lloyd (Bahamas) Ltd., Nassau | Bahamas | 100 |
| Hapag-Lloyd Cruises GmbH, Hamburg | Germany | 100 |
| Hellenic EFS Hotel Management E.P.E., Athens | Greece | 100 |
| Holiday Center S.A., Cala Serena / Cala d'Or | Spain | 100 |
| Holidays Services S.A., Agadir | Morocco | 100 |
| Horizon Holidays Ltd., Crawley | United Kingdom | 100 |
| Horizon Midlands (Properties) Ltd., Crawley | United Kingdom | 100 |
| Iberotel International A.S., Antalya | Turkey | 100 |
| Iberotel Otelcilik A.S., Istanbul | Turkey | 100 |
| Imperial Cruising Company SARL, Heliopolis-Cairo | Egypt | 90 |
| Inter Hotel SARL, Tunis | Tunisia | 100 |
| Itaria Limited, Nicosia | Cyprus | 100 |
| Jandia Playa S.A.U., Morro Jable / Fuerteventura | Spain | 100 |
| Jetair Real Estate N.V., Brussels | Belgium | 100 |
| Jetair Travel Distribution N.V., Oostende | Belgium | 100 |
| Jetaircenter N.V., Mechelen | Belgium | 100 |
| JNB (Bristol) Limited, Crawley | United Kingdom | 100 |
| Kras B.V., Ammerzoden | Netherlands | 100 |
| Label Tour EURL, Montreuil | France | 100 |
| Lapter Eurl, Macot La Plagne | France | 100 |
| Last-Minute-Restplatzreisen GmbH, Baden-Baden | Germany | 100 |
| Lodges & Mountain Hotels SARL, Notre Dame de Bellecombe, Savoie | France | 100 |
| L'TUR Suisse AG, Dübendorf / ZH | Switzerland | 99.5 |
| l'tur tourismus Aktiengesellschaft, Baden-Baden | Germany | 80 |
| Lunn Poly (Jersey) Ltd., St. Helier | Jersey | 100 |
| Lunn Poly Ltd., Crawley | United Kingdom | 100 |
| Magic Hotels SA, Tunis | Tunisia | 100 |
| Magic Life Egypt for Hotels LLC, Sharm el Sheikh | Egypt | 100 |
| Magic Life GmbH & Co KG, Vienna | Austria | 100 |
| Magic Life Greece S.A., Athens | Greece | 100 |
| Magic Tourism International S.A., Tunis | Tunisia | 100 |
| Mainstream DS Dominicana S.A.S., Higuey | Dominican Republic | 100 |
| Medico Flugreisen GmbH, Baden-Baden | Germany | 100 |
| Morvik EURL, Bourg Saint Maurice | France | 100 |
| MX RIUSA II S.A. de C.V., Cabo San Lucas | Mexico | 100 |
| Nazar Nordic AB, Malmö | Sweden | 100 |
| Nordotel S.A.U., San Bartolomé de Tirajana | Spain | 100 |
| Nouvelles Frontières Senegal S.R.L., Dakar | Senegal | 100 |
| Ocean College LLC, Sharm el Sheikh | Egypt | 100 |
| Ocean Ventures for Hotels and Tourism Services SAE, Sharm el Sheikh | Egypt | 98 |
| Orion Airways Ltd., Crawley | United Kingdom | 100 |
| Oy Finnmatkat AB, Helsinki | Finland | 100 |
| PATS N.V., Oostende | Belgium | 100 |
| Petit Palais Srl, Valtournenche | Italy | 100 |
| Preussag Beteiligungsverwaltungs GmbH IX, Hanover | Germany | 100 |
| Professor Kohts Vei 108 AS, Stabekk | Norway | 100 |
| Promociones y Edificaciones Chiclana S.A., Palma de Mallorca | Spain | 100 |
| ProTel Gesellschaft für Kommunikation mbH, Rengsdorf | Germany | 100 |
| Puerto Plata Caribe Beach S.A., Puerto Plata | Dominican Republic | 100 |
| RC Clubhotel Cyprus Limited, Limassol | Cyprus | 100 |
| RCHM S.A.S., Agadir | Morocco | 100 |
| Rideway Investment Ltd., London | United Kingdom | 100 |
| Riu Jamaicotel Ltd., Negril | Jamaica | 100 |

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| Riu Le Morne Ltd, Port Louis | Mauritius | 100 |
| RIUSA II S.A., Palma de Mallorca | Spain | 50* |
| RIUSA NED B.V., Amsterdam | Netherlands | 100 |
| ROBINSON AUSTRIA Clubhotel GmbH, Villach-Landskron | Austria | 100 |
| Robinson Club GmbH, Hanover | Germany | 100 |
| Robinson Club Italia S.p.A., Marina di Ugento | Italy | 100 |
| Robinson Club Maldives Private Limited, Malé | Maldives | 100 |
| Robinson Clubhotel Turizm Ltd. Sti., Istanbul | Turkey | 100 |
| Robinson Hoteles España S.A., Cala d'Or | Spain | 100 |
| Robinson Hotels Portugal S.A., Vila Nova de Cacela | Portugal | 67 |
| Robinson Otelcilik A.S., Istanbul | Turkey | 100 |
| Saint Martin RIUSA II SAS, Basse Terre | France | 100 |
| SERAC Travel GmbH, Zermatt | Switzerland | 100 |
| Simply Travel Holdings Ltd., Crawley | United Kingdom | 100 |
| Skymead Leasing Ltd., Crawley | United Kingdom | 100 |
| Société d'Exploitation du Paladien Marrakech SA, Marrakech | Morocco | 100 |
| Société d'Investissement Aérien S.A., Casablanca | Morocco | 100 |
| Société d'Investissement et d'Exploration du Paladien de Calcatoggio (SIEPAC), Montreuil | France | 100 |
| Société d'investissement hotelier Almoravides S.A., Marrakech | Morocco | 100 |
| Société Marocaine pour le Developpement des Transports Touristiques S.A., Agadir | Morocco | 100 |
| Sons of South Sinai for Tourism Services and Supplies SAE, Sharm el Sheikh | Egypt | 84.1 |
| Specialist Holidays Group Ltd., Crawley | United Kingdom | 100 |
| Specialist Holidays, Inc., Mississauga, Ontario | Canada | 100 |
| Star Tour A/S, Copenhagen | Denmark | 100 |
| Star Tour Holding A/S, Copenhagen | Denmark | 100 |
| Startour-Stjernereiser AS, Stabekk | Norway | 100 |
| STIVA RII Ltd., Dublin | Ireland | 100 |
| Sunshine Cruises Limited, Crawley | United Kingdom | 100 |
| Tantur Turizm Seyahat A.S., Istanbul | Turkey | 100 |
| TCV Touristik-Computerverwaltungs GmbH, Baden-Baden | Germany | 100 |
| TdC Agricoltura Società agricola a r.l., Florence | Italy | 100 |
| TdC Amministrazione S.r.l., Florence | Italy | 100 |
| Tec4Jets B.V., Rijswijk ZH | Netherlands | 100 |
| Tec4Jets NV, Oostende | Belgium | 100 |
| Tenuta di Castelfalfi S.p.A., Florence | Italy | 100 |
| Thomson Airways Limited, Crawley | United Kingdom | 100 |
| Thomson Reisen GmbH, St. Johann | Austria | 100 |
| Thomson Services Ltd., St. Peter Port | Guernsey | 100 |
| Thomson Travel Group (Holdings) Ltd., Crawley | United Kingdom | 100 |
| TICS GmbH Touristische Internet und Call Center Services, Baden-Baden | Germany | 100 |
| Tigdiv Eurl, Tignes | France | 100 |
| TLT Reisebüro GmbH, Hanover | Germany | 100 |
| Transfar – Agencia de Viagens e Turismo Lda., Faro | Portugal | 100 |
| Travel Choice Limited, Crawley | United Kingdom | 100 |
| travel-Ba.Sys GmbH & Co KG, Mülheim an der Ruhr | Germany | 83.5 |
| Tropical Places Ltd., Crawley | United Kingdom | 100 |
| TT Hotels Italia S.R.L., Rome | Italy | 100 |
| TT Hotels Turkey Otel Hizmetleri Turizm ve ticaret AS, Antalya | Turkey | 100 |
| TUI (Cyprus) Limited, Nicosia | Cyprus | 100 |
| TUI (Suisse) AG, Zurich | Switzerland | 100 |

* Controlling influence

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| TUI (Suisse) Holding AG, Zurich | Switzerland | 100 |
| TUI 4 U GmbH, Bremen | Germany | 100 |
| TUI Airlines Belgium N.V., Oostende | Belgium | 100 |
| TUI Airlines Nederland B.V., Rijswijk | Netherlands | 100 |
| TUI aqtiv GmbH, Hanover | Germany | 100 |
| TUI Austria Holding GmbH, Vienna | Austria | 100 |
| TUI Belgium NV, Oostende | Belgium | 100 |
| TUI Bulgaria EOOD, Varna | Bulgaria | 100 |
| TUI Curaçao N.V., Curaçao | Country Curacao | 100 |
| TUI Customer Operations GmbH, Hanover | Germany | 100 |
| TUI Denmark Holding A/S, Copenhagen | Denmark | 100 |
| TUI Deutschland GmbH, Hanover | Germany | 100 |
| TUI DS USA, Inc, Wilmington (Delaware) | United States of America | 100 |
| TUI España Turismo S.A., Barcelona | Spain | 100 |
| TUI France SAS, Nanterre | France | 100 |
| TUI Hellas Travel Tourism and Airline SA, Athens | Greece | 100 |
| TUI Holding Spain S.L., Barcelona | Spain | 100 |
| TUI Hotel Betriebsgesellschaft mbH, Hanover | Germany | 100 |
| TUI InfoTec GmbH, Hanover | Germany | 100 |
| TUI Leisure Travel Special Tours GmbH, Hanover | Germany | 100 |
| TUI Magic Life GmbH, Hanover | Germany | 100 |
| TUI Mexicana SA de CV, Mexico | Mexico | 100 |
| TUI Nederland Holding N.V., Rijswijk | Netherlands | 100 |
| TUI Nederland N.V., Rijswijk | Netherlands | 100 |
| TUI Nordic Holding AB, Stockholm | Sweden | 100 |
| TUI Northern Europe Ltd., Crawley | United Kingdom | 100 |
| TUI Norway Holding AS, Stabekk | Norway | 100 |
| TUI Österreich GmbH, Vienna | Austria | 100 |
| TUI Pension Scheme (UK) Ltd., Crawley | United Kingdom | 100 |
| TUI Poland Dystrybucja Sp. z o.o., Warsaw | Poland | 100 |
| TUI Poland Sp. z o.o., Warsaw | Poland | 100 |
| TUI PORTUGAL – Agencia de Viagens e Turismo S.A., Faro | Portugal | 100 |
| TUI Reisecenter Austria Business Travel GmbH, Vienna | Austria | 74.9 |
| TUI Service AG, Altendorf | Switzerland | 100 |
| TUI Suisse Retail AG, Zurich | Switzerland | 100 |
| TUI Travel (Ireland) Limited, Dublin | Ireland | 100 |
| TUI Travel Group Solutions Limited, Crawley | United Kingdom | 100 |
| TUI Travel Holdings Sweden AB, Stockholm | Sweden | 100 |
| TUI UK Italia S.r.L., Turin | Italy | 100 |
| TUI UK Ltd., Crawley | United Kingdom | 100 |
| TUI UK Retail Limited, Crawley | United Kingdom | 100 |
| TUI UK Transport Ltd., Crawley | United Kingdom | 100 |
| TUIfly GmbH, Langenhagen | Germany | 100 |
| TUIfly Nordic AB, Stockholm | Sweden | 100 |
| TUIfly Vermarktungs GmbH, Hanover | Germany | 100 |
| Tunisie Investment Services Holding S.A., Tunis | Tunisia | 100 |
| Tunisie Voyages S.A., Tunis | Tunisia | 100 |
| Tunisotel S.A.R.L., Tunis | Tunisia | 100 |
| Turcotel Turizm A.S., Istanbul | Turkey | 100 |
| Turkuaz Insaat Turizm A.S., Ankara | Turkey | 100 |
| Ultramar Express Transport S.A., Palma de Mallorca | Spain | 100 |
| Voukouvalides Tours Tourism S.A., Kos | Greece | 100 |
| Wolters Reisen GmbH, Stuhr | Germany | 100 |
| WonderCruises AB, Stockholm | Sweden | 100 |

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| WonderHolding AB, Stockholm | Sweden | 100 |
| Xidias Coaches Limited, Larnaca | Cyprus | 51 |
| **Specialist Travel** | | |
| Adventure Transport Limited, Crawley | United Kingdom | 100 |
| Adventure Travels USA, Inc., Wilmington (Delaware) | United States of America | 100 |
| Alcor Yachting SA, Geneva | Switzerland | 100 |
| Alkor Yat Turizm Isletmacileri A.S., Izmir | Turkey | 100 |
| American Adventures Travel, Inc, Wilmington (Delaware) | United States of America | 100 |
| Antigua Charter Services, St. John's | Antigua and Barbuda | 100 |
| Brightspark Travel Inc, State of Delaware | United States of America | 100 |
| CBQ No. 2 (UK) Limited, Crawley | United Kingdom | 100 |
| CBQ No. 2 (US) Limited, State of Delaware | United States of America | 100 |
| CBQ No. 2 International Projects Limited, Crawley | United Kingdom | 100 |
| CBQ No. 2 (Australia) Pty Ltd, Sydney | Australia | 100 |
| CHS Tour Services Ltd, Crawley | United Kingdom | 100 |
| Connoisseur Belgium BVBA, Nieuwpoort | Belgium | 100 |
| Crown Blue Line France SA, Castelnaudary | France | 100 |
| Crown Blue Line GmbH, Kleinzerlang | Germany | 100 |
| Crown Blue Line Limited, Crawley | United Kingdom | 100 |
| Crown Holidays Limited, Crawley | United Kingdom | 100 |
| Crown Travel Limited, Crawley | United Kingdom | 100 |
| Educatours Limited, Mississauga, Ontario | Canada | 100 |
| EEFC, Inc., State of Delaware | United States of America | 100 |
| Emerald Star Limited, Dublin | Ireland | 100 |
| Events International (Sports Travel) Limited, Crawley | United Kingdom | 100 |
| Events International Limited, Crawley | United Kingdom | 100 |
| Exodus Travels Australia Pty Ltd, Melbourne | Australia | 100 |
| Exodus Travels Canada Inc, Toronto | Canada | 100 |
| Exodus Travels Limited, Crawley | United Kingdom | 100 |
| Exodus Travels USA, Inc., Emeryville, CA | United States of America | 100 |
| Fanatics Sports & Party Tours UK Limited, Crawley | United Kingdom | 100 |
| Fanatics Sports and Party Tours PTY Limited, Banksia | Australia | 100 |
| FanFirm Pty Ltd, Banksia | Australia | 100 |
| Fantravel.com, Inc., Wilmington (Delaware) | United States of America | 100 |
| FCM (BVI) Ltd, British Virgin Islands | British Virgin Islands | 100 |
| First Choice Expeditions, Inc., State of Delaware | United States of America | 100 |
| First Choice Marine (Malaysia) Snd Bhd, Malaysia | Malaysia | 100 |
| First Choice Marine Limited, Crawley | United Kingdom | 100 |
| First Choice Sailing, Inc. (USA) (also known as Sunsail, Inc.), State of Delaware | United States of America | 100 |
| Francotel Limited, Crawley | United Kingdom | 100 |
| GEI-Moorings, LLC, State of Delaware | United States of America | 100 |
| Gullivers Group Limited, Crawley | United Kingdom | 100 |
| Gullivers Sports Travel Limited, Crawley | United Kingdom | 100 |
| Hayes & Jarvis (Travel) Limited, Crawley | United Kingdom | 100 |
| Headwater Holidays Limited, Crawley | United Kingdom | 100 |
| Hellenic Sailing Holidays SA, Athens | Greece | 100 |
| Hellenic Sailing SA, Athens | Greece | 100 |
| International Expeditions, Inc., State of Delaware | United States of America | 100 |
| Intrav, Inc., State of Delaware | United States of America | 100 |
| Le Boat Netherlands B.V., Rotterdam | Netherlands | 100 |
| Le Piolet SCI, St Martin de Belleville, Savoie | France | 100 |
| Les Tours Jumpstreet Tours, Inc., Montreal | Canada | 100 |

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| Mariner International Asia Limited, Hongkong | Hong Kong | 100 |
| Mariner International Travel (UK) Limited, Crawley | United Kingdom | 100 |
| Mariner International Travel, Inc., State of Delaware | United States of America | 100 |
| Mariner Operations USA Inc, State of Delaware | United States of America | 100 |
| Mariner Travel GmbH, Bad Vilbel | Germany | 100 |
| Mariner Travel SARL, Paris | France | 100 |
| Mariner Yacht Services SA, Le Marin (Martinique) | France | 100 |
| Mariner Yachts (Proprietary) Limited, Illovo | South Africa | 100 |
| Master-Yachting GmbH, Eibelstadt | Germany | 100 |
| Maxi Yen SL, Palma de Mallorca | Spain | 100 |
| Molay Travel SARL, Molay-Littry, Calvados | France | 100 |
| Molay Travel SCI, Molay-Littry, Calvados | France | 100 |
| Mont Charvin Ski SARL, Paris | France | 100 |
| Moorings Grenadines Ltd., St. Vincent and Grenadines | St. Vincent and the Grenadines | 100 |
| Moorings Yachting SAS, Paris | France | 100 |
| Moorings Yat Isletmecilgi Turizm Ve Tic Ltd, Mugla | Turkey | 100 |
| MyPlanet Holding A/S, Holstebro | Denmark | 100 |
| MyPlanet International A/S, Aarhus | Denmark | 100 |
| MyPlanet Sweden AB, Göteborg | Sweden | 100 |
| Platinum Event Travel Limited, Crawley | United Kingdom | 100 |
| Porter and Haylett Limited, Crawley | United Kingdom | 100 |
| Premier Holidays Afloat Limited, Dublin | Ireland | 100 |
| Premiere International Corp, Gardena | United States of America | 100 |
| Prestige Boating Holidays Limited, Dublin | Ireland | 100 |
| Quark Expeditions, Inc., State of Delaware | United States of America | 100 |
| Real Travel Ltd, Crawley | United Kingdom | 100 |
| Sawadee Amsterdam BV, Amsterdam | Netherlands | 100 |
| Ski Bound Limited, Crawley | United Kingdom | 100 |
| Skibound France SARL, Notre Dame de Bellecombe | France | 100 |
| Specialist Holiday Group Ireland Ltd., Dublin | Ireland | 100 |
| Specialist Holidays (Travel) Limited, Crawley | United Kingdom | 100 |
| Specialist Holidays Contracting Ltd., Crawley | United Kingdom | 100 |
| Specialist Holidays Ltd., Crawley | United Kingdom | 100 |
| Sports Executive Travel Limited, Crawley | United Kingdom | 100 |
| Sportsworld (Beijing) Sports Management Consulting Limited Company, Peking | China | 100 |
| Sportsworld Eventos Ltda, São Paulo | Brazil | 100 |
| Sportsworld Group Limited, Crawley | United Kingdom | 100 |
| Sportsworld Holdings Limited, Crawley | United Kingdom | 100 |
| Student City S.a.r.l., Paris | France | 100 |
| Student City Travel Limited, Crawley | United Kingdom | 100 |
| Student Skiing Limited, Crawley | United Kingdom | 100 |
| Studentcity.com, Inc., State of Delaware | United States of America | 100 |
| Sunsail (Antigua) Limited, Antigua | Antigua and Barbuda | 100 |
| Sunsail (Australia) Pty Ltd, Hamilton Island, Queensland | Australia | 100 |
| Sunsail (Seychelles) Limited, Mahé | Seychelles | 100 |
| Sunsail (Thailand) Company Ltd, Phuket | Thailand | 30* |
| Sunsail Adriatic d.o.o., Split | Croatia | 100 |
| Sunsail Hellas MEPE, Athens | Greece | 100 |
| Sunsail International B.V., Rotterdam | Netherlands | 100 |
| Sunsail SAS, Castelnaudary | France | 100 |
| Sunsail Worldwide Sailing Limited, Crawley | United Kingdom | 100 |
| Sunsail Worldwide Sailing St. Vincent Limited, St. Vincent and Grenadines | St. Vincent and the Grenadines | 100 |

* Controlling influence

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| TCS & Starquest Expeditions, Inc., Seattle | United States of America | 100 |
| TCS Expeditions, Inc., State of Delaware | United States of America | 100 |
| Teamlink Travel Limited, Crawley | United Kingdom | 100 |
| The Moorings (Bahamas) Ltd, Nassau | Bahamas | 100 |
| The Moorings (Seychelles) Limited, Mahé | Seychelles | 100 |
| The Moorings (St. Lucia) LTD, St. Lucia | Saint Lucia | 100 |
| The Moorings Belize Limited, Belize City | Belize | 100 |
| The Moorings d.o.o., Split | Croatia | 100 |
| The Moorings Limited, British Virgin Islands | British Virgin Islands | 100 |
| The Moorings Sailing Holidays Limited, Crawley | United Kingdom | 100 |
| The Moorings SARL, Utoroa, Raiatea | French Polynesia | 100 |
| Thomson Sport (UK) Limited, Crawley | United Kingdom | 100 |
| TRAVCOA Corporation, State of Delaware | United States of America | 100 |
| Travel Class Limited, Crawley | United Kingdom | 100 |
| Travel Services Europe Spain SL, Barcelona | Spain | 100 |
| Travel Turf, Inc., Allentown | United States of America | 100 |
| Travelbound European Tours Limited, Crawley | United Kingdom | 100 |
| Travelmood Limited, Crawley | United Kingdom | 100 |
| Travelopia Contract Services Limited, Crawley | United Kingdom | 100 |
| Travelopia Holdings Limited, Crawley | United Kingdom | 100 |
| Travelopia USA, Inc., State of Delaware | United States of America | 100 |
| Trek America Travel Limited, Crawley | United Kingdom | 100 |
| Trek Investco Limited, Crawley | United Kingdom | 100 |
| TTSS Limited, Crawley | United Kingdom | 100 |
| TTSS Transportation Limited, Crawley | United Kingdom | 100 |
| TUI Holdings (Australia) PTY Limited, Queensland | Australia | 100 |
| TUI Marine Grenada Limited, St. George's | Grenada | 100 |
| TUI Travel SAS Adventure Limited, Crawley | United Kingdom | 100 |
| Versun Yachts NSA, Athens | Greece | 100 |
| We Love Rugby Pty Ltd, Banksia | Australia | 100 |
| Williment Travel Group Limited, Wellington | New Zealand | 100 |
| World Challenge Expeditions Limited, Crawley | United Kingdom | 100 |
| World Challenge Expeditions Pty Ltd, Victoria | Australia | 100 |
| World Challenge Expeditions, Inc., Cambridge, MA | United States of America | 100 |
| World Challenge NZ Limited, Wellington | New Zealand | 100 |
| Yachts International Limited, British Virgin Islands | British Virgin Islands | 100 |
| YIL, LLC, State of Delaware | United States of America | 100 |
| Your Man Tours, Inc., El Segundo, CA | United States of America | 100 |
| Zegrahm Expeditions, Inc., Seattle | United States of America | 100 |
| **All other segments** | | |
| Absolut Insurance Limited, St. Peter Port | Guernsey | 100 |
| Amber Nominee GP Limited, Crawley | United Kingdom | 100 |
| Asiarooms Pte Ltd, Singapur | Singapur | 100 |
| B.D.S Destination Services Tours, Cairo | Egypt | 100 |
| Canada Maritime Services Limited, Crawley | United Kingdom | 100 |
| Canadian Pacific (UK) Limited, Crawley | United Kingdom | 100 |
| Cast Agencies Europe Limited, Crawley | United Kingdom | 100 |
| Cast Group Services Limited, Southamton | United Kingdom | 100 |
| Cheqqer B.V., Rijswijk | Netherlands | 100 |
| Contship Holdings Limited, Southampton | United Kingdom | 100 |
| CP Ships (Bermuda) Ltd., Hamilton | Bermuda | 100 |
| CP Ships (UK) Limited, Crawley | United Kingdom | 100 |
| CP Ships Ltd., Saint John | Canada | 100 |

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| CPS Holdings (No. 2) Limited, Southampton | United Kingdom | 100 |
| CPS Number 4 Limited, Southampton | United Kingdom | 100 |
| DEFAG Beteiligungsverwaltungs GmbH I, Hanover | Germany | 100 |
| DEFAG Beteiligungsverwaltungs GmbH III, Hanover | Germany | 100 |
| First Choice Holidays Finance Limited, Crawley | United Kingdom | 100 |
| First Choice Holidays Limited, Crawley | United Kingdom | 100 |
| First Choice Leisure Limited, Crawley | United Kingdom | 100 |
| First Choice Olympic Limited, Crawley | United Kingdom | 100 |
| First Choice Overseas Holdings Limited, Crawley | United Kingdom | 100 |
| First Choice USA Limited, Crawley | United Kingdom | 100 |
| Hapag-Lloyd Executive GmbH, Langenhagen | Germany | 100 |
| I Viaggi del Turchese S.r.l., Fidenza | Italy | 100 |
| Jetset Group Holding (Brazil) Limited, Crawley | United Kingdom | 100 |
| Jetset Group Holding (UK) Limited, Crawley | United Kingdom | 100 |
| Jetset Group Holding Limited, Crawley | United Kingdom | 100 |
| Leibniz-Service GmbH, Hanover | Germany | 100 |
| Mala Pronta Viagens e Turismo Ltda., Curitiba | Brazil | 100 |
| Manufacturer's Serialnumber 852 Limited, Dublin | Ireland | 100 |
| MSN 1359 GmbH, Hanover | Germany | 100 |
| Paradise Hotels Management Company LLC, Cairo | Egypt | 100 |
| PM Peiner Maschinen GmbH, Hanover | Germany | 100 |
| Preussag Immobilien GmbH, Salzgitter | Germany | 100 |
| Preussag UK Ltd., Crawley | United Kingdom | 100 |
| Sovereign Tour Operations Limited, Crawley | United Kingdom | 100 |
| Thomson Airways Trustee Limited, Crawley | United Kingdom | 100 |
| TTG (Jersey) Limited, Jersey | Jersey | 100 |
| TUI Ambassador Tours Unipessoal Lda, Lissabon | Portugal | 100 |
| TUI Aviation GmbH, Hanover | Germany | 100 |
| TUI Beteiligungs GmbH, Hanover | Germany | 100 |
| TUI Brasil Operadora e Agencia de Viagens LTDA, Curitiba | Brazil | 100 |
| TUI Business Services GmbH, Hanover | Germany | 100 |
| TUI Canada Holdings, Inc, Toronto | Canada | 100 |
| TUI Chile Operador y Agencia de Viajes SpA, Santiago | Chile | 100 |
| TUI China Travel CO. Ltd., Peking | China | 75 |
| TUI Colombia Operadora y Agencia de Viajes SAS, Bogota | Colombia | 100 |
| TUI Connect GmbH, Hanover | Germany | 100 |
| TUI Group Services GmbH, Hanover | Germany | 100 |
| TUI Group UK Trustee Limited, Crawley | United Kingdom | 100 |
| TUI India Private Limited, New Delhi | India | 100 |
| TUI Leisure Travel Service GmbH, Neuss | Germany | 100 |
| TUI LTE Viajes S.A de C.V, Mexico City | Mexico | 100 |
| TUI Spain, SLU, Madrid | Spain | 100 |
| TUI Travel Amber E&W LLP, Crawley | United Kingdom | 100 |
| TUI Travel Amber Limited, Edinburgh | United Kingdom | 100 |
| TUI Travel Amber Scot LP, Edinburgh | United Kingdom | 100 |
| TUI Travel Aviation Finance Limited, Crawley | United Kingdom | 100 |
| TUI Travel Common Investment Fund Trustee Limited, Crawley | United Kingdom | 100 |
| TUI Travel Group Management Services Limited, Crawley | United Kingdom | 100 |
| TUI Travel Healthcare Limited, Crawley | United Kingdom | 100 |
| TUI Travel Holdings Limited, Crawley | United Kingdom | 100 |
| TUI Travel Limited, Crawley | United Kingdom | 100 |
| TUI Travel Nominee Limited, Crawley | United Kingdom | 100 |
| TUI Travel Overseas Holdings Limited, Crawley | United Kingdom | 100 |
| TUI-Hapag Beteiligungs GmbH, Hanover | Germany | 100 |

| COMPANY | COUNTRY | CAPITAL SHARE IN % |
|---|---|---|
| **Joint Ventures and associated companies** | | |
| **Tourism** | | |
| .BOSYS SOFTWARE GMBH, Hamburg | Germany | 25.2 |
| Ahungalla Resorts Limited, Colombo | Sri Lanka | 40 |
| Aitken Spence Travels Ltd, Colombo | Sri Lanka | 50 |
| alps & cities 4ever GmbH, Vienna | Austria | 50 |
| Atlantica Hellas S.A., Rhodos | Greece | 50 |
| Atlantica Hotels and Resorts Limited, Lemesos | Cyprus | 49.9 |
| Bartu Turizm Yatirimlari Anonim Sirketi, Istanbul | Turkey | 50 |
| Bonitos GmbH & Co KG, Frankfurt am Main | Germany | 50 |
| Daktari Travel & Tours Ltd., Limassol | Cyprus | 33.3 |
| DER Reisecenter TUI GmbH, Berlin | Germany | 50 |
| ENC for touristic Projects Company S.A.E., Sharm el Sheikh | Egypt | 50 |
| Etapex, S.A., Agadir | Morocco | 35 |
| Fanara Residence for Hotels S.A.E., Sharm el Sheikh | Egypt | 50 |
| GBH Turizm Sanayi Isletmecilik ve Ticaret A.S., Istanbul | Turkey | 50 |
| Gebeco Gesellschaft für internationale Begegnung und Cooperation mbH & Co. KG, Kiel | Germany | 50.1 |
| GRUPOTEL DOS S.A., Can Picafort | Spain | 50 |
| Holiday Travel (Israel) Limited, Airport City | Israel | 50 |
| Hydrant Refuelling System NV, Brussels | Belgium | 25 |
| InteRes Gesellschaft für Informationstechnologie mbH, Darmstadt | Germany | 25.2 |
| Interyachting Limited, Limassol | Cyprus | 45 |
| Jaz Hotels & Resorts S.A.E., Cairo | Egypt | 51 |
| Kamarayat Nabq Company for Hotels S.A.E., Sharm el Sheikh | Egypt | 50 |
| Karisma Hotels Adriatic d.o.o., Zagreb | Croatia | 33.3 |
| Karisma Hotels Caribbean S.A., Panama | Panama | 50 |
| Nakheel Riu Deira Islands Hotel FZ CO, Dubai | United Arab Emirates | 40 |
| Raiffeisen-Tours RT-Reisen GmbH, Burghausen | Germany | 25.1 |
| Riu Hotels S.A., Palma de Mallorca | Spain | 49 |
| Sharm El Maya Touristic Hotels Co. S.A.E., Cairo | Egypt | 50 |
| Sun Oasis for Hotels Company S.A.E., Hurghada | Egypt | 50 |
| Sunwing Travel Group, Inc, Toronto | Canada | 49 |
| Teckcenter Reisebüro GmbH, Kirchheim unter Teck | Germany | 50 |
| Tikida Bay S.A., Agadir | Morocco | 34 |
| TIKIDA DUNES S.A., Agadir | Morocco | 30 |
| Tikida Palmeraie S.A., Marrakech | Morocco | 33.3 |
| Togebi Holdings Limited, Nicosia | Cyprus | 25 |
| Travco Group Holding S.A.E., Cairo | Egypt | 50 |
| TRAVELStar GmbH, Hanover | Germany | 50 |
| TUI Cruises GmbH, Hamburg | Germany | 50 |
| UK Hotel Holdings FZC L.L.C., Fujairah | United Arab Emirates | 50 |
| | | |
| **All other segments** | | |
| ACCON-RVS Accounting & Consulting GmbH, Berlin | Germany | 50 |

# RESPONSIBILITY STATEMENT BY MANAGEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hanover, 6 December 2016

The Executive Board

Friedrich Joussen　Horst Baier　David Burling

Sebastian Ebel　Dr Elke Eller

# INDEPENDENT AUDITOR'S REPORT

To TUI AG, Berlin and Hanover

## Report on the Audit of the Consolidated Financial Statements

### Audit Opinion on the Consolidated Financial Statements

We have audited the consolidated financial statements of TUI AG, Berlin and Hanover, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at September 30, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from October 1, 2015, to September 30, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB („Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at September 30, 2016, as well as the results of operations for the financial year from October 1, 2015, to September 30, 2016, in accordance with these requirements.

According to § 322 Abs. 3 Satz 1 erster Halbsatz (first half sentence) HGB, we state that our audit has not lead to any reservations with respect to the propriety of the consolidated financial statements.

### Basis for Audit Opinion on the Consolidated Financial Statements

We conducted our audit 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 considered of the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards, as well as supplementary standards, are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the provisions under German commercial law and professional standards, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from October 1, 2015, to September 30, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

❶ Recoverability of goodwill
❷ Disposal of shares in Hotelbeds Group companies and planned sale of shares in Specialist Group companies
❸ Provisions and other areas requiring judgment
❹ Deferred taxes on loss carryforwards and trade tax risks
❺ EBITA adjustments

Our presentation of these key audit matters has been structured as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

## ❶ Recoverability of goodwill

① Goodwill amounting to € 2,854 million in total has been reported under the goodwill line item in the statement of financial position in the consolidated financial statements of TUI AG. Goodwill is tested by the Company for impairment as of June 30 in the financial year (impairment test). It is measured using a discounted cash flow valuation technique. The result of this measurement depends to a large extent on Management's assessment of future cash inflows and the discount rate used, and is therefore subject to considerable uncertainty, particularly as a result of the United Kingdom's announcement to leave the European Union (so-called "Brexit") and the assumptions on the development of tourism in Turkey which are relevant to the determination of cash inflows. Against this background this matter was in our view of particular importance during our audit,

② With respect to the appropriateness of the future cash inflows used in the calculation we satisfied ourselves, amongst other procedures, by agreeing this information with the current budgets in the three-year plan adopted by Management and approved by the supervisory board, as well as by comparison with general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of goodwill calculated in this way, we also focused our testing on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and reperformed the calculations. Due to the materiality of goodwill (representing approximately 20 % of consolidated total assets) and the fact that its measurement also depends on economic conditions which are outside of the company's sphere of influence, we also assessed the sensitivity analyses prepared by the Company for cash-generating units with little headroom (Net book value compared to present value) and found that the respective goodwill was sufficiently covered by discounted future cash surpluses. Overall we considered, the measurement inputs and assumptions used by Management to be in line with our expectations.

③ The Company's goodwill disclosures are contained in section 14 of the notes to the consolidated financial statements.

## ❷ Disposal of shares in Hotelbeds Group companies and planned sale of shares in Specialist Group companies

① During the financial year shares in the companies belonging to the Hotelbeds Group were sold as part of the focusing on the core tourism business. For this reason, the Hotelbeds Group was designated as a disposal group (IFRS 5) as of March 31, 2016, and classified as a discontinued operation. Effective September 12, 2016 the Hotelbeds Group was sold and deconsolidated. Overall, the gain on disposal at group level was € 681 million. Furthermore, the TUI Group is planning to sell its shares in the Specialist Group. In this context the Specialist Group segment was designated as a disposal group (IFRS 5) as of September 30, 2016, and classified as a discontinued operation. From our point of view, these matters were of particular importance due to the complexity of the underlying contractual agreements and the material effects on the Group.

② To test whether the accounting treatment of the disposal of the shares in the companies belonging to the Hotelbeds Group was appropriate we examined, inter alia, as part of our audit, the company law principles as well as the terms of the underlying sale agreement. In this regard, we examined whether the conditions for the designation during the financial year as a disposal group (IFRS 5) had been met; we examined the resulting effects on the measurement of assets and liabilities and the conditions for the classification as a discontinued operation, as well as the deconsolidation of the Hotelbeds Group (IFRS 10). Regarding the designation as a discontinued operation of the Specialist Group, we also examined whether the conditions for a disposal group (IFRS 5) had been met; we examined the resulting effects on the measurement of assets and liabilities and the conditions for the classification as a discontinued operation. We were able to satisfy ourselves that the accounting for the sale of the shares in the companies belonging to the Hotelbeds Group and the associated measurement were suitable and that the total gain on disposal recognized had been determined appropriately. There are no reservations concerning the designation of the Specialist Group as a disposal group or the classification and measurement as a discontinued operation.

③ The Company's disclosures on the disposal of the shares in the Hotelbeds Group and the planned disposal of the Specialist Group are contained in section "discontinued operations" of the notes to the consolidated financial statements.

## ❸ Provisions and other areas of judgment

① In TUI AG's consolidated financial statements, tourism prepayments in the amount of € 724 million have been reported under the balance sheet item "Trade receivables and other assets"; provisions for aircraft maintenance in the amount of € 614 million and provisions for risks from executory contracts in the amount of € 31 million have been reported under the balance sheet line item "Other provisions" . In addition, provisions for pensions and similar obligations of € 1,451 million have been reported. From our point of view, this matter was of particular importance, as recognition and measurement of these material items are based on Management's estimates and assumptions.

② With the knowledge that estimated values result in an increased risk of material misstatements within the consolidated financial statements and that Management's measurement decisions have a direct and significant effect on consolidated profit, we assessed the appropriateness of the carrying amounts inter alia by comparing these amounts with historical data and by referring to the underlying contracts provided to us. Amongst other tests, we

- assessed the recoverability of tourism prepayments in the hotel industry, particularly against the background of current political developments in Turkey, based on the repayment plans agreed with the respective hoteliers, the possibilities for offset payments with future overnight accommodation services and the framework agreements entered into with them;
- evaluated the measurement of the provision for onerous contracts from hotel leases, particularly for hotels in Turkey, based on the leases entered into and the Company's earnings projections for the individual hotels;

- reperformed the calculation of the costs expected for maintenance expenses for aircraft maintenance based on group-wide maintenance agreements, the price increases expected based on external market forecasts and the discount rates applied and
- assessed the appropriateness of the inputs used to calculate pension provisions by involving the expertise of our internal pension valuation specialists.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by Management were sufficiently documented and supported to justify the recognition and measurement of the material provisions and other areas where judgment was involved.

③ The Company's disclosures about trade receivables and other assets as well as provisions are contained in sections 19 as well as 31 and 32 of the notes to the consolidated financial statements.

## ❹ Deferred taxes on loss carryforwards and German trade tax risks

① Deferred tax assets of € 345 million (of which € 212 million for loss carryforwards) have been reported in the consolidated statement of financial position in the consolidated financial statements of TUI AG. The recoverability of capitalized deferred tax assets on loss carryforwards is measured using future earnings position forecasts. Furthermore, there are tax risks, as any possibly estimated proportion of rentals from hotel expenses is not fully deductible when determining the tax base for German trade tax. In the financial year, the finance court issued a judgment (which is not yet final) on a similar case involving another tour operator that add backs must be applied for certain structures. Against the background of this finance court judgment, the Company changed its estimate of the probability of this risk to over 50 % and set up a provision for trade tax risks including interest in the total amount of € 44 million. From our point of view, these matters were of particular importance as they depend to a large extent on estimates and assumptions made by Management and are subject to uncertainties.

② Within our audit of these tax matters, we included internal tax accounting specialists in our audit team. With their support, we assessed the internal processes and controls implemented for the recording of tax matters. We assessed the recoverability of deferred tax assets relating to loss carryforwards and deductible temporary differences based on the Company's internal forecasts for the future taxable income position of TUI AG and its material controlled entities for income tax purposes using Management's planning, and evaluated the appropriateness of the basis used for the planning. Working together with our internal tax accounting specialists, we evaluated Management's assessment and gained an understanding about taking the tax risks from the German trade tax add-backs of certain hotel expenses into account, and evaluated the appropriateness of the recognition in the accounting. We were able to retrace the assumptions made by Management concerning the recognition and measurement of deferred taxes and the trade tax risks, and agree with the assessments taken by Management.

③ The Company's disclosures about deferred taxes are contained in the notes to the consolidated financial statements in the section "Accounting policies" as well as in sections 8, 21 and 36 and, for tax disputes, in section 39.

## ❺ EBITA adjustments

① For the TUI Group's management and analysis purposes, operating profit (earnings before interest, taxes and amortization – EBITA) is used and adjusted for extraordinary effects and non-operating effects on profit. Adjustments to EBITA in the amount of € 181 million have been reported in the consolidated financial statements of TUI AG. Underlying EBITA is used for capital market communication as a core financial performance indicator. The adjustments to EBITA were of particular importance during our audit, because the applied adjustments are based on TUI AG's applicable internal accounting provisions and there is a risk of bias in Management's judgment.

② We reperformed the calculation of underlying EBITA and assessed the identification of one off effects on profit and non-operating effects on profit. Based on the knowledge obtained during the audit and the information provided to us by Management, we examined whether the adjustments made are in accordance with the definition and the procedural method stated in the segment reporting disclosures. We were able to satisfy ourselves that the adjustments applied to EBITA by Management were consistent with the segment reporting disclosures and had been applied consistently.

③ The Company's disclosures about the adjustments to EBITA as well as their determination are presented under "Segment data disclosures" in the segment reporting of the notes to the consolidated financial statements.

## Other Information

Management is responsible for the other information. The other information comprises

- the Corporate Governance Report under no. 3.10 of the German Corporate Governance Code,
- the Corporate Governance Statement pursuant to § 289a HGB,
- the report concerning the UK Corporate Governance Code according to no. 9.8.6 R (5) of the listing rules in the United Kingdom and
- the report to the shareholders according to no. 9.8.8 R of the listing rules in the United Kingdom, as well as
- other parts of the annual report of TUI AG, Berlin and Hanover, for the financial year ended on September 30, 2016, which did not require to be audited.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements, which comply with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 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 requirements. Furthermore, Management is responsible for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted 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), with additional consideration of the ISAs, will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit 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), with additional consideration of the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or the Group management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

# Other legal and regulatory Requirements

## Report on the Audit of the Group Management Report

### AUDIT OPINION ON THE GROUP MANAGEMENT REPORT

We have audited the group management report of TUI AG, Berlin and Hanover, which is combined with the Company's management report, for the financial year from October 1, 2015, to September 30, 2016.

In our opinion, based on the findings of our audit, the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, the group management report is consistent with the consolidated financial statements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the group management report.

### BASIS FOR AUDIT OPINION ON THE GROUP MANAGEMENT REPORT

We conducted our audit of the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements and suitably presents the opportunities and risks of future development. Furthermore, Management is responsible for such arrangements and measures (systems) as Management determines as necessary to enable the preparation of a group management report in accordance with the German legal requirements applicable under § 315 Abs. 1 HGB and to provide sufficient and appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the group management report.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE GROUP MANAGEMENT REPORT

Our objective is to obtain reasonable assurance about whether the group management report as a whole provides a suitable view of the Group's position as well as, in all material respects, is consistent with the consolidated financial statements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the group management report.

As part of an audit, we examine the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this connection, we draw attention to the following:

- The audit of the group management report is integrated into the audit of the consolidated financial statements.
- We obtain an understanding of the arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these arrangements and measures (systems).
- We perform audit procedures on the prospective information presented by Management in the group management report. Based on appropriate and sufficient audit evidence, we hereby, in particular, retrace the material assumptions used by Management as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.
- We are also not issuing a separate audit opinion on individual disclosures in the group management report; our audit opinion covers the group management report as a whole.

### REVIEW OF MANAGEMENT'S STATEMENT REGARDING THE UK CORPORATE GOVERNANCE CODE

Under no. 9.8.10 R (2) of the Listing Rules in the United Kingdom, we are required to review Management's statement pursuant to 9.8.6 R (6) of the Listing Rules in the United Kingdom contained in the report on the UK Corporate Governance Code, on compliance with the provisions in C.1.1, C.2.1 and C.2.3 as well as C.3.1 to C.3.8 of the UK Corporate Governance Code in the financial year or respectively Company's explanation in case of discrepancies. We have nothing to report having performed our review.

## Engagement Partner

The engagement partner on the audit resulting in this independent auditor's report is Thomas Stieve.

Hanover, 6 December 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| sgd. Thomas Stieve | sgd. Prof. Dr Mathias Schellhorn |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# FORWARD-LOOKING STATEMENTS

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

# Financial calender

**8 DECEMBER 2016**
*Annual Report 2015/16*

**14 FEBRUARY 2017**
*Annual General Meeting 2017*

**14 FEBRUARY 2017**
*Q1 2016/17*

**29 MARCH 2017**
*Pre-Close Trading Update*

**MAY 2017**
*H1 2016/17*

**AUGUST 2017**
*9M 2016/17*

**DECEMBER 2017**
*Annual Report 2016/17*

**PUBLISHED BY**
*TUI AG*
*Karl-Wiechert-Allee 4*
*30625 Hanover, Germany*
*Tel.: + 49 511 566-00*
*Fax: +49 511 566-1901*
*www.tuigroup.com*

**CONCEPT AND DESIGN**
*3st kommunikation, Mainz, Germany*

**PHOTOGRAPHY**
*Getty Images (p. 26)*
*Hannah de Blaeij (p. 112)*
*Michael Neuhaus (cover photo, p. 144)*
*Rüdiger Nehmzow (p. 2, p. 6 – 8)*

**PRINTER**
*Kunst- und Werbedruck, Bad Oeynhausen, Germany*

---

*The Annual Report of TUI Group, and the financial statements of TUI AG are also available online: http://annualreport2015-16.tuigroup.com*

*This report was published on 8 December 2016.*

*The German version is legally binding. The Company cannot be held responsible for any misunderstandings or misinterpretation arising from this translation.*

TUI AG
Karl-Wiechert-Allee 4
30625 Hanover, Germany