

Notes on the Consolidated Profit and Loss Statement

Since the beginning of the 2007 financial year, TUI AG has exercised the alternative treatment option available under IAS 1 to structure the consolidated profit and loss statement according to the cost of sales format. The previous year's figures were restated accordingly.

(1) Turnover

Group turnover by business activity

€ million	2007	2006
Tourism services	15,681.4	14,147.3
Transport services	6,018.4	6,093.7
Trading in merchandise	33.9	25.4
Letting and leasing	29.0	34.9
Production of goods and other turnover	102.9	213.3
Total	21,865.6	20,514.6

The year-on-year development of turnover by the Group's continuing operations was mainly characterised by changes in the group of consolidated companies. The First Choice Holidays Group contributed € 1,342.5 million to the Group turnover for the four months since first-time consolidation. Turnover by the shipping division declined slightly against the previous year's level especially due to the weak US dollar and despite increased transport volumes.

The decline in turnover from the production of goods and other turnover primarily resulted from the disposal of Wolf GmbH in the 2006 financial year. In 2006, this company had contributed € 154.1 million to turnover. The decline was partly offset by an increase in 'Other turnover'. 'Other turnover' included costs of brochures and advertising materials rebilled to hotels and travel agencies, costs incurred for TUI's company health scheme (BKK), operating income from secondary operations such as e.g. income from aircraft leases.

The cost of sales and administrative expenses comprise:

(2) Cost of sales and administrative expenses

Lease, rental and leasing expenses

€ million	2007	2006
Lease, rental and leasing expenses of long-term agreements	1,211.6	1,156.1
Lease, rental and leasing expenses of short-term agreements	325.6	525.6
Total	1,537.2	1,681.7

Where rental and lease expenses for operating leases were directly related to the turnover generated, these expenses were shown under the cost of sales. However, where rental and lease expenses were incurred for administrative buildings, they were shown under administrative expenses. The reduction in overall rental and lease expenses was primarily caused by container shipping, these costs for short-term and long-term contracts declined in particular due to the integration of the CP Ships Group

in Hapag-Lloyd and the weakness of the US dollar. TUI Travel PLC reported an overall increase in these costs which was largely attributable to the newly added long-term lease obligations for aircraft in First Choice Airways.

Personnel costs

€ million	2007	2006
Wages and salaries	1,898.6	1,968.4
Social security contributions, pension costs and benefits	446.5	467.0
Total	2,345.1	2,435.4

Pension costs included expenses for defined benefit pension obligations. The interest portion from the valuation of pension obligations was shown under financial expenses due to its financing character. The expected income from the related fund assets was shown under financial income. A detailed presentation of the pension obligations is provided in note 31.

Total personnel costs declined by € 90.3 million year-on-year. This was due to opposite development caused by changes in the group of consolidated companies and the restructuring measures implemented. The first-time consolidation of the First Choice Holidays Group led to an increase in personnel costs, which was partly offset by the disposal of the TUI InfoTec Group and the TQ3 Group. Further reductions were caused by the integration of CP Ships in the shipping division and further restructuring measures in the TUI Northern Europe sector.

Disregarding the discontinuing operations included in 2006 figures, the average headcount rose by 2,525 employees to 62,731 employees (excluding apprentices). In the shipping division, the average headcount declined slightly from 8,545 to 8,241 in the 2007 financial year. The tourism division recorded an increase in its average headcount from 49,499 to 53,733, primarily due to the first-time of the First Choice Holidays Group consolidation.

Average annual headcount (excl. apprentices)

	2007	2006
Wage earners	1,137	1,454
Salaried employees	61,594	58,752
Total	62,731	60,206

Amortisation of intangible assets and depreciation of property, plant and equipment and impairment

Depreciation and amortisation included the amortisation of other intangible assets, depreciation of property, plant and equipment as well as write-downs of investment property. The uniform useful lives underlying depreciation and amortisation and the principles for impairment are outlined in the 'Notes on the Principles and Methods'.

Depreciation/amortisation/impairments

€ million	2007	2006 restated
Depreciation and amortisation	700.4	667.8
Impairment of other intangible assets, property, plant and equipment and investment property	53.0	54.3
Total	753.4	722.1

Depreciation and amortisation rose by € 32.6 million to € 700.4 million year-on-year. This increase was primarily attributable to the first-time consolidation of the First Choice Holidays Group and was partly offset by declines in the shipping division.

In the financial year under review, impairments of other intangible assets, property, plant and equipment and investment property totalling € 53.0 million had to be effected, including an amount of € 37.3 million for hotel buildings. This amount essentially related to three Turkish hotel complexes which had to be impaired due to declines in booking volumes. On top of that, an impairment of € 5.9 million was required for a vacant office building, and a further amount of € 3.5 million was necessary for a defective aircraft engine. In 2006, impairments of € 54.3 million had to be effected for property, plant and equipment, primarily in the tourism division.

**(3) Other income/
Other expenses**

Other income/other expenses

€ million	2007	2006 restated
Other income	352.7	341.9
Other expenses	16.7	118.8
Total	336.0	223.1

In the financial year under review, Other income of the shipping division primarily resulted from the divestment of Montreal Gateway Terminals (€ 185.4 million) outlined under 'Acquisitions – divestments' and of the divestment of shares of Germanischer Lloyd (€ 15.1 million). In addition, gains on disposal from the airlines sector (€ 31.1 million), from the hotel sector the sale of properties of the Riu group (€ 12.1 million) and from real estate sector (€ 13.5 million) were included here. In connection with the operations discontinued in previous periods, income from the reversal of provisions of € 32.0 million was recognised.

The income shown in the 2006 financial year mainly resulted from the divestment of the TQ3 Group (€ 149.2 million), the realisation of income from the sale of Schacht Konrad (€ 40.8 million), sale-and-lease-back agreements for aircraft and ship containers (€ 27.0 million) and the divestment of the 80% interest in Wolf GmbH (€ 35.0 million).

On the other hand, the Other expenses shown in the 2006 financial year mainly resulted from the one-off realisation of currency differences in connection with the reduction of investments in foreign subsidiaries, previously shown under equity with no effect on results, of € 65.0 million. They also included book losses from sale-and-lease-back agreements in shipping (€ 16.6 million) and the sale of the interest in the TUI InfoTec Group (€ 10.6 million).

(4) Impairments of goodwill

As a result of the impairment tests carried out in the 2007 financial year, goodwill had to be impaired in tourism, as was the case in 2006. These impairments mainly resulted from the Irish market and the reserved planning of the Magic Life Group. The impairments can be broke down as follows:

Impairments of goodwill

€ million	Impairment charged	Reduced growth rate (0.50% p. a.)	Increased interest rate (0.50% p. a.)
TUI Travel PLC			
Budget Travel Group	33.7	–	–
TUI Hotels & Resorts			
Magic Life Group	20.0	–	–

The assets and liabilities held for sale of the divestment of the Irish Budget Travel Group in 2007 had to be shown in a separate balance sheet item for the relevant period of less than one year according to IFRS 5.

As the impairment of goodwill for the Budget Travel Group and the Magic Life Group amounting to the overall carrying amount, the decline in the growth rate and the increase in the weighted average cost of capital themselves did not have any impact on further impairments required. The impairments of the hotel complexes owned by Magic Life would rise by a further € 7.1 million if the growth rate dropped by 0.50% p. a. with other parameters remaining unchanged, and by € 8.1 million if the cost of capital rose by 0.50% p. a. No further impairments would be required, neither from a decrease in the growth rate nor from an increase in the cost of capital rate.

(5) Financial income

Financial income

€ million	2007	2006 restated
Income from non-consolidated Group companies	1.4	2.0
Income from other investments	2.9	2.1
Income from profit transfer agreements with non-consolidated Group companies	3.3	3.7
Income from investments	7.6	7.8
Other income from securities and long-term loans	6.9	7.1
Interest and similar income from non-consolidated Group companies	0.5	0.6
Interest income from fund assets for the financing of pension obligations	93.6	86.9
Other interest and similar income	85.1	69.3
Interest income	186.1	163.9
Income from the measurement of interest hedges	- 0.9	0.3
Income from the measurement of other financial instruments	17.0	7.3
Total	209.8	179.3

The income and expenses resulting from the development of the value of derivative financial instruments included results from the valuation of hedging instruments which do not meet the strict criteria of IAS 39 and are not allocable to other items of the profit and loss statement due to the underlying transactions.

In connection with the issue of the 2003/2008 convertible bond, TUI AG acquired derivative financial instruments (call spreads) enabling TUI AG to participate in the TUI share price development if the price level exceeds the conversion price by means of a compensation payment. The valuation of these instruments generated income of € 10.5 million in the 2007 financial year.

On 3 April 2006, TUI AG irrevocably waived its right to be able to deliver cash in the event of a conversion. As a result, the conversion options have already been classified as equity instruments during 2006. Until the waiver, measurement income including the call spread of € 7.3 million was generated in the 2006 financial year.

(6) Financial expenses

Financial expenses

€ million	2007	2006 restated
Expenses relating to losses taken over from non-consolidated Group companies	1.6	2.8
Write-downs of available-for-sale financial instruments and loans	24.5	14.9
Interest and similar expenses to non-consolidated Group companies	3.0	1.4
Interest expenses from the valuation of pension obligations	121.4	119.4
Other interest and similar expenses	318.3	262.6
Interest expenses	442.7	383.4
Expenses relating to the valuation of other financial instruments	–	–
Total	468.8	401.1

The write-downs of available-for-sale financial instruments and loans included € 24.5 million of impairments (previous year: € 14.9 million).

(7) Result from companies
measured at equity

Result from companies measured at equity

€ million	2007	2006
Result from associated companies measured at equity	27.6	10.2
Result from joint ventures measured at equity	37.1	40.3
Total	64.7	50.5

The result from companies measured at equity comprised the prorated net profit for the year of the associated companies and joint ventures as well as impairments of goodwill of these companies. In the completed financial year, the result from companies measured at equity did not comprise any impairments of goodwill (previous year: € 3.3 million). In the financial year under review, prorated losses of € 1.6 million (previous year: € 2.8 million) of associated companies and joint ventures were not realised since the losses exceeded the value of the shareholdings. Accumulated losses not yet realised under the at equity valuation totalled € 3.6 million (previous year: € 7.6 million).

Group share in individual items of profit and loss statements of joint ventures

€ million	2007	2006
Operating income	384.0	315.8
Operating expenses	331.5	254.7
Operating result	52.5	61.1
Financial result	- 5.4	- 6.8
Profit on ordinary activities	47.1	54.3
Income taxes	10.0	10.7
Profit for the year	37.1	43.6
Impairment of companies measured at equity	–	3.3
Result from joint ventures measured at equity	37.1	40.3

Group share in individual items of profit and loss statements
of associated companies

€ million	2007	2006
Operating income	128.3	173.8
Operating expenses	85.9	153.6
Operating result	42.4	20.2
Financial result	- 2.3	- 1.7
Profit on ordinary activities	40.1	18.5
Income taxes	12.5	8.3
Profit for the year	27.6	10.2
Reversal of negative goodwill	–	–
Result from associated companies measured at equity	27.6	10.2

(8) Adjustment

On top of the disclosures required under IFRS, the consolidated profit and loss statement comprises a reconciliation to underlying earnings. The exceptional items show final consolidation successes under gains on disposal, events according to IAS 37 under restructuring and other effects on the EBITA under purchase price allocations. A further reconciliation covers the one-off items presented below:

Other one-off items

€ million	2007	2006
Tourism	120.4	59.5
Shipping	- 26.0	47.4
Central operations	- 32.0	65.0
Total	62.4	171.9

The special one-off costs arising in the tourism division in the 2007 financial year included an amount of € 55.9 million attributable to one-off integration expenses incurred in particular in connection with the merger between First Choice Holidays PLC and the TUI Group's tourism entities. The airlines sector of the tourism division incurred one-off expenses for the re-branding of the new TUIfly.com brand (€ 13.0 million) and one-off expenses for changes in the air passenger duty in the UK which could not be passed on to customers (€ 10.1 million). In the TUI Hotels & Resorts sector, special one-off expenses were incurred in connection with an impairment of Turkish hotel complexes (€ 37.3 million).

The one-off income posted by the shipping division mainly resulted from a revaluation of a risk position formed as at the date of acquisition of the CP Ships Group in relation to which only minor subsequent expenses had been incurred for the integration of CP Ships.

(9) Income taxes

Central operations show one-off income from the reversal of litigation provisions.

Breakdown of income tax expenses

€ million	2007	2006 restated
Current income taxes		
in Germany	24.9	49.9
abroad	78.5	64.2
Deferred tax expenses	- 102.6	15.3
Total	0.8	129.4

The strong year-on-year decline in tax expenses resulted from the corporate reorganisation of the German companies contributed to TUI Travel PLC and the effects of the issue of the new convertible bond. This results in a further capitalisation of tax loss carryforwards in the German entity of fiscal unities. The decline in current taxes in Germany was mainly attributable to a revaluation of tax risks included in 2006 figures.

In the financial year under review, total income tax expenses of € 0.8 million (previous year: € 129.4 million) were derived as follows from an 'expected' income tax expense that would have arisen if the statutory income tax rate of TUI AG as the parent company (aggregate income tax rate) had been applied to earnings before tax:

Reconciliation from expected to actual income tax expenses

€ million	2007	2006 restated
Earnings before taxes by continuing operations	237.1	- 731.1
Expected income tax expense (tax rate: 40.0%, previous year: 40.0%)	94.8	- 292.4
Variation from the difference between actual and expected tax rates	4.5	73.6
Tax rate and changes in tax law	- 5.0	- 11.1
Income with no tax effect	- 129.9	- 96.2
Expenses with no tax effect	89.7	370.9
Effects from loss carryforwards	- 48.1	9.6
Temporary differences and losses for which no deferred taxes were recognised	- 2.2	37.2
Effective tax expenses and income relating to other periods	- 6.2	35.8
Other differences	3.2	2.0
Actual income tax expense	0.8	129.4

(10) Result from discontinuing operations

Tax effects of the adjustment of loss carryforwards primarily comprised the income from the capitalisation of loss carryforwards previously considered as non-realizable.

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

As a result, the TUI Group now comprises the two core businesses tourism and shipping.

The Group currently does not have any discontinuing operations. The tables below provide an overview of the development of discontinuing operations in 2006:

Result from discontinuing operations

€ million	Earnings before income tax from current business operations	Income taxes from current business operations	Earnings before income tax from the divestment and impairments	Income taxes from the divestment and from impairments	Total
Special logistics	-	-	5.3	0.1	5.2
Trading	28.8	9.0	- 12.7	1.1	6.0
Other divestments	-	-	7.2	1.3	5.9
Total 2006	28.8	9.0	- 0.2	2.5	17.1

In 2006, the result from discontinuing operations comprised both the earnings after tax generated by the companies and the impairments effected due to the valuation of the disposal groups at fair value less costs to sell. Moreover, income and expenses resulting from the divestment and the related income tax effects were shown in the result from discontinuing operations and allocated to the segment of the discontinuing operation.

Detailed information on discontinuing operations in 2006 is provided in the notes on the consolidated financial statements as at 31 December 2006.

Material items of the profit and loss statement of the discontinuing operations

€ million	2007	Trading 2006
Turnover	–	401.0
Cost of sales	–	357.8
Administrative expenses	–	14.0
Financial income	–	0.4
Financial expenses	–	1.4
Result from companies measured at equity	–	0.6
Earnings before income taxes	–	28.8
Income taxes	–	9.0
Earnings after income taxes	–	19.8

As at 31 December 2006, the Group did not hold any assets or liabilities from discontinuing operations.

Cash flow from operating, investing and financing activities

€ million	2007	Trading 2006
Change in cash and cash equivalents due to exchange rate fluctuations	–	0.1
Cash flow from operating activities	–	- 17.4
Cash flow from investing activities	–	- 2.0
Cash flow from financing activities	–	18.4
Change in cash and cash equivalents	–	- 0.9

(11) Share of TUI AG shareholders in Group profit for the year

The share in Group profit for the year attributable to TUI AG shareholders rose from € - 890.3 million in 2006 to a positive result of € 175.1 million in the financial year under review.

(12) Minority interests in Group profit for the year

Minority interests in Group profit for the year

€ million	2007	2006 restated
Profit attributable to minority interests	61.2	47.9
Loss attributable to minority interests	0.0	1.0
Total	61.2	46.9

Profit for the year attributable to minority interests mainly related to consolidated subsidiaries in the tourism division, in particular the companies of the TUI Travel PLC Group and the RIUSA II Group.

(13) Earnings per share

In accordance with IAS 33, basic earnings per share were calculated by dividing the Group's net profit for the year attributable to TUI AG shareholders by the weighted average number of no-par value bearer shares outstanding during the financial year under review. The average number of shares resulted from the total number of shares at the beginning of the financial year (251,019,855 shares) and the employee shares issued, included on a pro rata temporis basis (225,720 shares, 17 days).

A dilution of earnings per share occurs when the average number of shares is increased by adding the issue of potential shares from warrants and conversion options. Diluting effects arose from the convertible bonds issued in October 2003 and June 2007. The conversion options may be exercised any time. Calculation of the diluting effect is based on the assumption of complete conversion and the corresponding issue of shares at the beginning of the respective financial year. However, no diluting effect arises in the event of negative basic earnings per share.

In line with IAS 33.12, the after-tax dividend on the hybrid capital was deducted from the share of TUI AG shareholders in Group profit for the year representing the hybrid capital as equity but does not represent a share of TUI AG shareholders. For the hybrid capital, accrued dividend obligations totalled € 25.9 million as at the balance sheet date; they were included in financial liabilities and paid in January 2008.

Earnings per share

	2007	2006 restated
Group profit/loss for the year attributable to TUI AG shareholders (€ million)	175.1	- 890.3
Dividend effect on hybrid capital after income taxes (€ million)	- 23.2	- 25.2
Adjusted Group result for the year attributable to TUI AG shareholders (€ million)	151.9	- 915.5
Weighted average number of shares	251,030,397	250,742,835
Basic earnings per share (€)	0.61	- 3.65
Adjusted Group profit/loss for the year attributable to TUI AG shareholders (€ million)	151.9	- 915.5
Interest savings from convertible bonds (€ million)	27.8	15.6
Diluted and adjusted share in Group profit/loss for the year attributable to TUI AG shareholders (€ million)	179.7	- 899.9
Weighted average number of shares	251,030,397	250,742,835
Diluting effect from assumed exercise of convertible bonds	34,011,266	19,385,785
Weighted average number of shares (diluted)	285,041,663	270,128,620
Diluted earnings per share (€)	0.61	- 3.65

As both convertible bonds don't create a dilution effect in 2007, undiluted and diluted earnings per share are identical.