Notes Principles and methods underlying the Consolidated Financial Statements

General

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

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

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

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

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

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

Accounting principles

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

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

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

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

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

Summary of new standards not yet applied

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principles and methods of consolidation

Principles

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

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

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

Group of consolidated companies

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

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

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

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

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

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

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

1) excl. TUI AG

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

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

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

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

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

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

Acquisitions – divestments

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

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

The merger was implemented on 3 September 2007 by means of a share swap with the newly established TUI Travel PLC, whose shares have since been traded on the London Stock Exchange. In the wake of this share swap, TUI AG received 51.0% of the shares in TUI Travel PLC and a compensation claim to create the debt agreed in the Merger Agreement for TUI's tourism division involved in the merger in exchange for all shares in companies of TUI's tourism division held by the TUI Group. The share swap in First Choice Holidays PLC was effected by means of a scheme of arrangement under which one share in First Choice Holidays PLC was swapped into one share in TUI Travel PLC. TUI AG now holds with 51.0% of issued shares in the company, i.e. the majority of voting rights, while the former shareholders of First Choice Holidays PLC hold 49.0% of the shares in TUI Travel PLC.

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

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

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

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

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

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

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

Summary presentation of other acquisitions

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

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

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

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

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

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

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

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

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

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

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

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

The container terminal business was acquired at a price of the equivalent of € 324.6 million by Montreal Gateway Terminals Limited Partnership in the form of an asset deal. The purchase price was paid in cash for the most part, with the remainder paid in the form of a transfer of a 20% share in the new company. This interest was measured at equity by the TUI Group. After deduction of expenses of € 4.6 million associated with the sale and taking account of the disposal of the goodwill thus removed totalling the equivalent of € 4.4 million, the divestment generated overall positive earnings before tax of € 185.4 million in the shipping division in the 2007 financial year.

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

Currency translation

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

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

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

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

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

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

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

Exchange rates of relevant currencies to the TUI Group

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

Consolidation methods

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

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

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

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

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

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

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

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

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

Accounting and measurement

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

Realisation of income

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

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

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

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

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

Goodwill and other intangible assets

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Useful lives

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

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

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

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

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

Finance leases

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

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

Investment property

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

Financial instruments

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

In accordance with IAS 39, financial instruments were broken down into financial assets or liabilities to be measured at fair value through profit and loss, loans and receivables, financial assets available for sale and financial assets held to maturity as well as other liabilities.

In terms of financial instruments measured at fair value through profit and loss, the TUI Group exclusively held derivative financial instruments mandatory classified as held for trading. The fair value option was not exercised. Moreover, the TUI Group held financial assets in the 'Loans and receivables' and the 'Available for sale' categories. However, it did not hold any assets held to maturity in the period under review.

No reclassifications were effected within the measurement categories in the 2007 financial year, nor in 2006.

Financial assets

Financial assets were recognised as at the trading date on which the Group committed to buy the asset. Financial assets were classified as loans and receivables or as financial assets held for sale when recognised for the first time. Loans and receivables as well as financial assets available for sale were initially recognised at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or fixable payments not listed in an active market. They are shown under 'Trade account receivable and other receivables' in the balance sheet and classified as current receivables where they mature within twelve months after the balance sheet date.

In the framework of follow-up measurement, loans and receivables were measured at amortised cost based on the effective interest method. Value adjustments were made to account for identifiable individual risks. Where default of a certain portion of the receivables portfolio was probable, impairments were effected at an amount corresponding to the expected loss. Impairments and write-backs of impairments were carried under 'Cost of sales' or 'Administrative expenses', depending on the technical nature of the transaction.

Financial assets available for sale are non-derivative financial assets either individually expressly allocated to this category or not allocable to any other category of financial assets. In the TUI Group, they exclusively consisted of shares in companies and securities held. They had to be allocated to non-current assets unless the management intended to sell them within twelve months after the balance sheet date.

Financial assets available for sale were measured at their fair value after their initial measurement. Changes in fair values were carried in equity with no effect on results up to their disposal. A permanent reduction in fair value gave rise to impairments with an effect on results. In the event of subsequent reversal of the impairment, the impairment carried with an effect on results was not reversed for equity instruments but eliminated against equity with no effect on results. Where a listed market price in an active market was not available for shares held and other methods to determine an objectifiable market value were not applicable, the shares were measured at amortised cost.

A derecognition of assets was effected as at the date on which the rights for payments from the asset ceased or were transferred and therefore as at the date essentially all risks and rewards associated with ownership were transferred.

Derivative financial instruments and hedging

In the framework of initial measurement, derivative financial instruments were measured at the fair value attributable to them on the day of the conclusion of the agreement. The follow-up measurement was also effected at the fair value applicable at the respective balance sheet date. Where derivative financial instruments were not part of a hedge in connection with hedge accounting, they had to be classified obligatory as held for trading in accordance with IAS 39. The method used to carry profits and losses depended on whether the derivative financial instrument was classified as a hedge, and on the type of the underlying hedged item. As a matter of principle, the Group classifies derivative financial instruments either as fair value hedges to hedge against the risk of changes in the fair value of assets or liabilities or as cash flow hedges to hedge against the risks of fluctuating cash flows from highly probable future transactions.

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

The changes in fair values of derivative financial instruments designated as a fair value hedge were carried in the profit and loss statement alongside the changes in the fair values of the hedged assets or liabilities. If the conditions for hedge accounting were no longer met and the previously designated hedged item was measured by means of the effective interest method, the necessary adjustment of the carrying amount of the hedged item had to be effected over its remaining term. The present annual financial statements of the TUI Group did not include any fair value hedges of assets and liabilities.

The effective part of changes in the fair value of cash flow hedges was recognised in equity. The ineffective part of such changes in the fair value, in contrast, was taken directly to the profit and loss statement according to the nature of the hedged item. Amounts taken to equity were reclassified to the profit and loss statement and carried as income or expenses in the period in which the hedged item had an effect on results.

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

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

Inventories

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

Cash and cash equivalents

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

Hybrid capital

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

Provisions

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

Where a large number of similar obligations existed – such as in the event of legal guarantees and warranties – the probability of a charge was determined on the basis of this group of obligations. A provision was also accrued if the probability of a charge was low in relation to an individual obligation contained in this group.

Provisions were measured at the present value of the expected expenses, taking account of a pre-tax interest rate reflecting current market expectations concerning the interest effect and the specific risks related to the obligation. Increases in provisions due to accrued interest were carried as interest expenses with an effect on results.

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

Past service cost was immediately recognised with an effect on results if the changes in the pension plan did not depend on the employee remaining in the Company for a defined period of time (vested period). In this case, the past service cost was recognised with an effect on results on a straight line basis over the period until the commencement of the vested rights.

For defined contribution plans, the Group pays contributions to public or private pension insurance plans on the basis of a statutory or contractual obligation or on a voluntary basis. The Group does not have any further payment obligations on top of the payment of the contributions. The contributions were carried under personnel costs when they fell due.

Share-based payments

All share-based payment schemes in the Group were cash-settled or equity-settled payment schemes.

For cash-settled transactions, the resulting liability for the Group was charged to expenses at its fair value as at the date of the performance of the service by the beneficiary. Until payment of the liability, the fair value of the liability was remeasured at every reporting date and all changes in the fair value were carried with an effect on results.

In the tourism division, share-based payment schemes existed in the form of share option plans granted by TUI Travel PLC. Under these payment schemes, Board members and employees were entitled to buy shares in TUI Travel PLC. The fair value of the options granted was carried under ‘Personnel costs’ with a corresponding direct increase in equity. The fair value was determined as at the date of the granting of the options and spread over the employees' vesting period.

The fair value of the options granted was determined on the basis of the terms and conditions related to the granting of the options; option price models were used in this context. The amount to be carried under personnel costs was adjusted such that it was based on the number of options that may be exercised finally, with the exception of options lapsing solely because the threshold values required for the exercise of such options were not reached due to market conditions.

For share-based payment schemes granted in the framework of a business combination to replace share-based payment schemes previously offered by the acquired company, the fair value of the equity instruments was determined as at the date of acquisition. This fair value was recognised as part of the cost of acquisition of the business combination at the amount representing services already performed before the establishment of the business combination, with the remainder of the fair value carried under personnel costs for the period from the business combination until the first strike day for the equity instruments. Costs are broken down into costs of acquisition and personnel costs in proportion to the relation between the vesting period before and after the acquisition date.

Liabilities

As a matter of principle, liabilities were carried at the date on which they arose at fair value after deduction of the cost of borrowing and the transaction costs. Over the course of time, liabilities were measured at amortised cost based on application of the effective interest method.

When issuing bonds comprising both a debt component but also a second component in the form of conversion options or warrants, the funds obtained for the respective components were recognised in accordance with their character. At the issuing date, the debt component was carried as a bond at a value that would have been generated for the issue of this outside capital instrument without corresponding conversion options or warrants on the basis of current market terms. If the conversion options or warrants had to be classified as equity instruments, the difference over the issuing proceeds generated was transferred to the capital reserve with deferred taxes taken into account. With effect from 3 April 2006, TUI AG irrevocably waived its unilateral option of paying cash in the event of an exercise of the conversion options from the convertible bond issued in October 2003. The conversion options have therefore been treated as equity instruments since the waiver date.

As a matter of principle, the currency differences resulting from the translation of trade accounts payable were reported as a correction of the cost of sales. Currency differences from the translation of liabilities not resulting from normal performance processes were carried under Other income/other expenses or Administrative expenses, depending on the nature of the underlying liability.

Deferred taxes

In accordance with IAS 12, deferred taxes were determined on the basis of the liability method. Accordingly, all temporary differences between the carrying amounts of assets and liabilities shown in the consolidated financial statements and the tax base of such assets or liabilities, probable future tax reliefs and charges were recognised.

Expected tax savings from the use of loss carryforwards assessed as recoverable in the future were capitalised. Although there was no time limit for German loss carryforwards, as before, the annual use of such carryforwards was restricted by means of minimum taxation. Foreign loss carryforwards frequently had to be used within a specific country-specific time limit and were subject to restrictions concerning the use of these loss carryforwards for profits on ordinary activities, which were taken into account accordingly in the measurement. Deferred taxes were impaired or credited directly by the equity if the tax refer to items which were impaired or credited directly by the equity in the same or another period.

Deferred tax receivables were applied in the admeasurement in which it is possible that a further taxable result is available which can be used against a temporary difference or a not-used tax loss.

Deferred taxes were measured at the tax rates and regulations that were applicable at the balance sheet date or that had essentially been legally adopted and were expected to be applicable at the date of realisation of the deferred tax asset or the payment of the deferred tax liability. In connection with the corporate tax reform 2008, deferred tax items of German companies were measured at a tax rate of 31.0% (previous year: 40.0%) taking into consideration the effective tax rates since the assessment or enquiry period 2008.

Current income taxes

As in 2006, the German companies of the TUI Group with financial year ending on 31 December had to pay an average trade income tax of approx. 18% on trade earnings in the overall financial year 2007, which was deductible in the computation of corporation tax. The corporation tax rate was 25%, as in 2006, plus a 5.5% unvaried solidarity surcharge on corporation tax.

Due to the 2008 corporate tax reform act introduced in Germany, however, German TUI Group companies that changed their financial year-end in 2007 had to pay average corporation tax of 31.0 % as of the date of the change for a financial year ending in 2008.

The calculation of foreign income taxes was based on the laws and provisions applicable in the individual countries. The income tax rates applied to foreign companies varied from 10.0% to 42.1%.

Income tax provisions were offset against the corresponding tax refund claims where they existed in the same fiscal territory and had the same nature and maturity.

Essential estimates and assumptions

All estimates and judgments were constantly revalued and were based on past experience and other factors, including expectations concerning future events.

Goodwill was tested for impairment as at the balance sheet date. Details concerning the implementation of goodwill impairment tests are presented in the section 'Goodwill and other intangible assets' in the chapter 'Accounting and measurement methods'.

The determination of the present value of pension obligations largely depended on the selection of the discount rate, newly determined at the end of any one year. The discount rate used was the interest rate of high-quality corporate bonds denominated in the currency in which the benefits will be paid, and having terms to maturity corresponding to terms of the related pension liabilities. Detailed information is provided in the explanations on recognised pension provisions in note 31.

The Group was liable to pay income taxes in various countries. Essential assumptions were required to determine the income tax provision. For certain transactions and calculations the ultimate tax charge was impossible to determine during the ordinary course of business. The level of the provisions for expected tax audits was based on estimates as to whether and to what extent additional income taxes would be due. Estimates made were corrected, if necessary, in the period in which the final tax charge was determined.

Other essential assumptions and estimates related to the determination of useful lives and residual values of property, plant and equipment. The useful lives and residual values determined were reviewed at least on an annual basis. Details concerning useful lives and residual values of property, plant and equipment items are provided in the section 'Property, plant and equipment' in the chapter 'Accounting and measurement methods'.

In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired were measured at their fair values. In this context, cash flow-based methods were regularly used. Depending on the assumptions underlying such methods, different results may be produced. In particular, the assessment of the useful lives of intangible assets and the determination of the fair values of contingent liabilities entailed an element of uncertainty since they were based on assumptions.

Segment reporting

Notes on the segments

In primary segment reporting, the individual organisational entities of the TUI Group were attributed to the business segments, with tourism and shipping representing the Group's core businesses. Following the sale of Wolf GmbH in 2006, the segment 'Other operating sectors' exclusively comprised the Group's real estate companies. Group segmentation was based on internal corporate control. The individual organisational entities were allocated to the divisions and sectors based on economic criteria alone, irrespective of their participation structure under company law.

Due to the merger between TUI's tourism division (with the exception of TUI Hotels & Resorts) and the British travel group First Choice Holidays PLC to form TUI Travel PLC and the associated realignment of operative management of the Company in the 2007 financial year, segment reporting was also adjusted accordingly. The tourism division now consists of the TUI Travel PLC sector and the TUI Hotels & Resorts sector, comprising all hotel companies of the Group and not included in the merger. Since it was managed by Hapag-Lloyd AG, Hapag-Lloyd Kreuzfahrten continued to be carried in the shipping division rather than being reported in the tourism division. In the 2006 financial year, the 'Other tourism' sector mainly comprised the business travel activities, only included on a prorated basis due to the divestment, and the TUI InfoTec Group until the disposal date in 2006.

The shipping division comprised both container shipping and cruise activities. In the container shipping sector, Hapag-Lloyd Container Linie did not only offer pure container shipping operations but in particular also door-to-door container transport services. Using subcontractors, they thus offered services at all stages of the transport chain.

In exercising its cross-divisional management tasks, TUI AG acquired in particular legal ownership of the maritime assets (container ships, containers and semi-trailers), leased to the Group's shipping companies in the framework of operating leases. For the purposes of segment reporting, the maritime assets were allocated to the operative companies so that these assets were presented as assets of the shipping segment. Corresponding expenses and income were also allocated to the segments.

The remaining activities of TUI AG and other holding companies not directly allocable to other segments were shown as non-allocable business activities (holdings).

In the financial year under review, the Group did not hold any discontinuing operations. For the 2006 financial year, the US steel service companies sold in May 2006 and the lagging income from the special logistics operations sold in the 2005 financial year were shown.

In secondary segment reporting, the Group's business activities were broken down according to geographical criteria.

Notes on the segment data

As a rule, inter-segment turnover was generated in line with the arm's length principle as applied in transactions with third parties.

The operating segment assets and liabilities comprised the assets or liabilities, excluding financial assets, financial liabilities and pension provisions as well as income taxes. Goodwill was also shown as segment assets. Investments were additions of property, plant and equipment as well as intangible assets. Depreciation was related to segment assets and also included goodwill impairments.

Depreciation was not taken into account in the determination of non-cash expenses.

Earnings from the disposal of subsidiaries were allocated to the individual segment earnings. The realisation of differences from currency translation in connection with capital reductions with an effect on results was allocated to the holding activities and therefore included in segment reporting by the holding companies.

Financial assets as well as cash and cash equivalents were used to generate the financial result. Financial liabilities including pension provisions were carried as interest-bearing debt and were used to finance the operating and investing activities. The reconciliation of segment assets and liabilities to the Group's assets or liabilities resulted from the consideration of the income tax assets or income tax provisions and liabilities not taken into account in accordance with IAS 14.

Segment reporting disclosed earnings ratios such as EBT, EBTA, EBIT, underlying EBITA, EBITDA and EBITDAR since these ratios were used as the control basis for value-oriented corporate management. In determining the earnings ratios of the discontinuing operations, the 'Result from discontinuing operations' was reallocated to the original types of income and expenses.