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

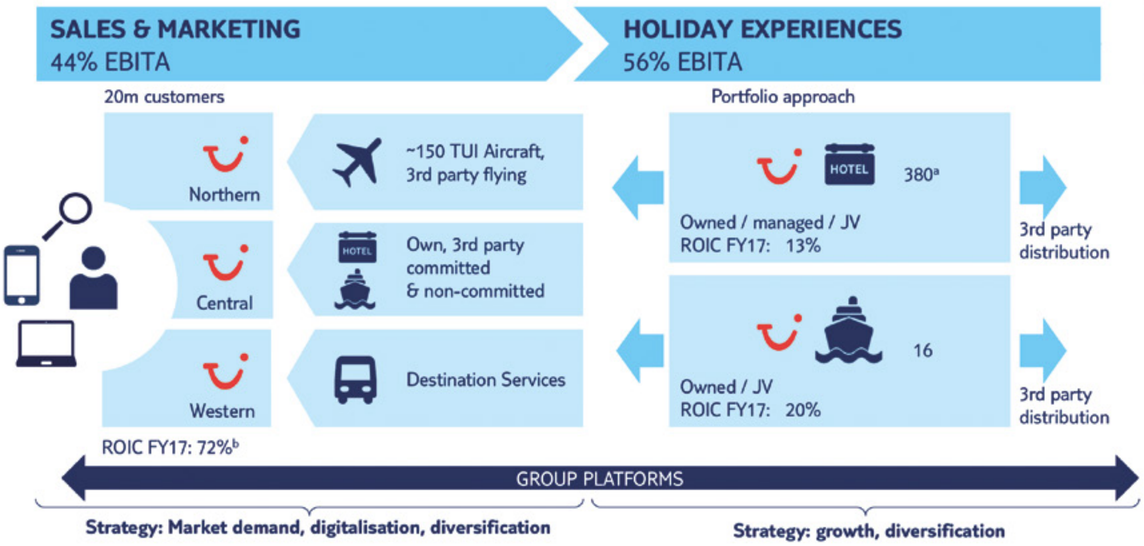
READ MORE ABOUT THE WORK OF OUR HOTEL SCOUT IN THE MAGAZINE UNDER 'PEARL DIVER'

Combined Management Report*

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

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

Business model and strategy



INTEGRATION BENEFITS/ STRATEGY

- Own customer end-to-end
- 20m customers to optimise own hotels/ cruises demand
- Unique TUI holiday experiences differentiating TUI from competition in Sales & Marketing and driving high NPS
- Diversified on both ends

[a] This number includes concept hotels and 3rd party concept hotels
[b] This number relates to Sales & Marketing/all other

Our Business Model

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

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

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

Our Segment Strategy

Sales & Marketing: Market demand, digitalisation and diversification

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

Our Employees

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary

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

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

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

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

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

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

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

CORPORATE PROFILE

How we do it – Group structure

TUI GROUP

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

TUI AG parent company

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

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

ORGANISATION AND MANAGEMENT

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

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

EXECUTIVE BOARD AND GROUP EXECUTIVE COMMITTEE

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

For details on Executive Board members see page 102

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

TUI Group structure

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

SALES & MARKETING

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

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

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

NORTHERN REGION

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

CENTRAL REGION

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

WESTERN REGION

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

HOLIDAY EXPERIENCES

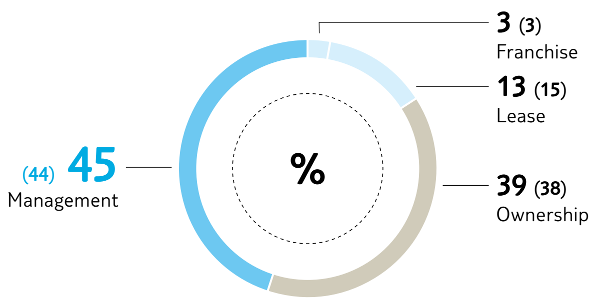
Holiday Experiences comprise our hotel and cruises activities.

HOTELS & RESORTS

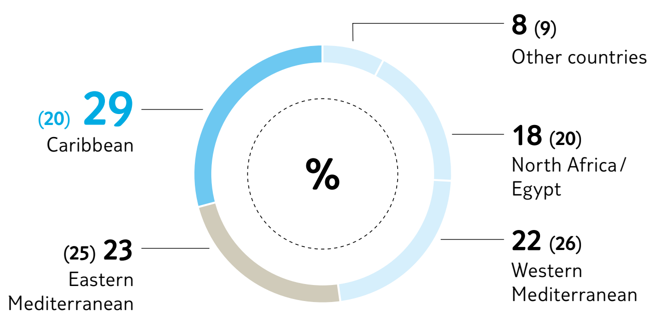
The Hotels & Resorts segment comprises TUI Group's diversified portfolio of Group hotel brands and hotel companies. The segment includes ownership in hotels, joint ventures with local partners, stakes in companies giving TUI a significant influence, and hotels operated under management contracts.

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

Hotels & Resorts financing structure



Hotels & Resorts beds per region



In brackets: previous year

Riu

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

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

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

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

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

Cruise Fleet By Ownership Structure

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

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

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

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

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

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

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

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

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

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

Research and development

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

How we measure it – value-oriented Group management

Management system and Key Performance Indicators

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

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

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

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

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

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

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

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

Cost of capital

Cost of capital (WACC)

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

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

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

ROIC and Economic Value Added

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

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

ROIC and Value added TUI Group

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

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

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

RISK REPORT

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

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

Risk Governance Framework

STRATEGIC DIRECTION AND RISK APPETITE

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

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

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

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

TUI Group Risk Management Roles & Responsibilities

EXECUTIVE BOARD
Direct & Assure

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

RISK OVERSIGHT COMMITTEE (ROC)
Review & Communicate

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

GROUP RISK TEAM
Support & Report

BUSINESSES & FUNCTIONS
Identify & Assess

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

RISK CHAMPION COMMUNITY

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

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

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

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

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

RISK MANAGEMENT PROCESS

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

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

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

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

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

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

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

Impact Assessment

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

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

Likelihood Assessment

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

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

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

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

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

AD HOC RISK REPORTING

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

RISK MATURITY & CULTURE

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

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

ENTITY SCOPING

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

EFFECTIVENESS OF RISK MANAGEMENT SYSTEM

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

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

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

Principal Risks

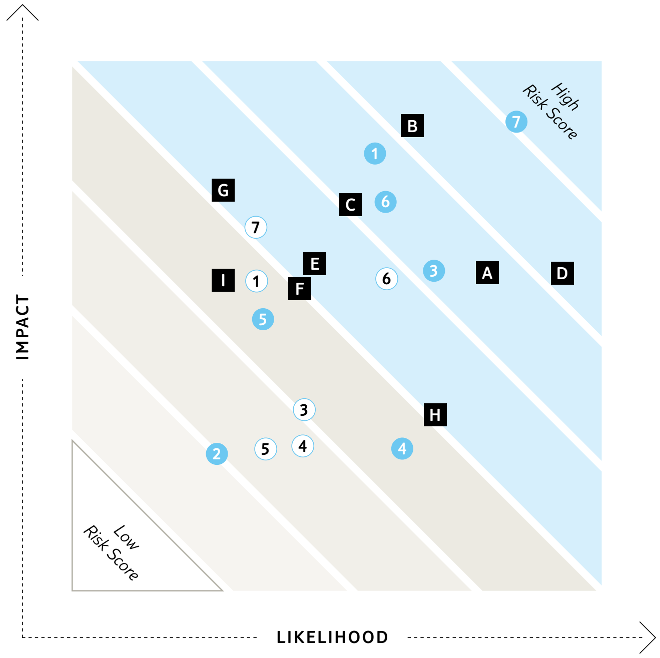
There are some principal risks which are inherent to the tourism sector and necessarily face all businesses in the sector. For these inherent risks we have controls, processes and procedures in place as a matter of course which serve to mitigate each risk to either minimise the likelihood of the event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

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

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

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

Principal Risk Heat Map



CURRENT RISK POSITION

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

TARGET RISK POSITION

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

INHERENT RISKS

CURRENT RISK POSITION

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

ACTIVE RISKS

CURRENT RISK POSITION **TARGET RISK POSITION**

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

Principal risks – Inherent to the sector

Nature of Risk

DESTINATION DISRUPTION

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

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

Mitigating Factors

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

Nature of Risk | **Mitigating Factors**

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

MACROECONOMIC RISKS

Nature of Risk

Spending on travel and tourism is discretionary and price sensitive. The economic outlook remains uncertain with different source markets at different points in the economic cycle. Furthermore, terrorist incidents in source markets can influence the overall demand for overseas travel in those markets. Consumers are also waiting longer to book their trips in order to assess their financial situation.

There is the risk that fluctuations in macroeconomic conditions in our source markets will impact on the spending power of our customers which could impact on our short-term growth rates and lead to margin erosion.

Furthermore, changes in macroeconomic conditions can have an impact on exchange rates which, particularly for the £/€ rate, has a direct impact on the translation of non-euro source market results into euros, the reporting currency of our Group.

Mitigating Factors

- Many consumers prioritise their spending on holidays above other discretionary items.
- Creating unique and differentiated holiday products which match the needs of our customers.
- Leveraging our scale to keep costs down and prices competitive.
- Having a range of source markets so that we are not over exposed to one particular economic cycle.
- Expressing our key profit growth target in constant currency terms so that short term performance can be assessed without the distortion caused by exchange rate fluctuations.
- Promoting the benefits of travelling with a recognised and leading tour operator to increase consumer confidence and peace of mind.

COMPETITION & CONSUMER PREFERENCES

Nature of Risk

The tourism industry is fast-paced and competitive with the emergence of new market participants operating new business models, combined with consumer tastes and preferences evolving all the time.

In recent years there has been an emergence of successful substitute business models such as web-based travel and hotel portals which allow end users to combine the individual elements of a holiday trip on their own and book them separately.

Consumer tastes and preferences have evolved in recent years as well, with more consumers booking their holidays online and via mobiles and tablets, and booking closer to the time of travel.

There is the risk that if we do not respond adequately to such business model disruption or if our products and services fail to meet changing customer demands and preferences, that our turnover, market share and profitability will suffer as a result.

Mitigating Factors

- Our outstanding market position as a leading tourism group, the strength of our brands and our integrated business model enables us to respond robustly to competitive threats.
- The TUI Group is characterised by the continuous development of unique and exclusive holidays, developing new concepts and services which match the needs and preferences of our customers.
- Our integrated business model offers end-to-end customer services, from consultation and booking of holidays via flights with the Group's own airlines through to Group-owned or operated hotels, resorts and cruise ships. Integration thus facilitates the development and marketing of individual, tailored holiday offerings for customers which it is difficult for competitors to replicate.
- Building strong and lasting relationships with our key hotel partners, which further reinforces our ability to develop new concepts exclusive to the TUI Group which competitors struggle to match.
- Focusing on being online throughout the whole of the customer journey – from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media.

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

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

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

Actively managed principal risks – Strategic and emerging and business change

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

Nature of Risk	Mitigating Factors

BRAND CHANGE

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

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

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

- Undertaken detailed market research in each source market to assess current brand positioning and likely impact of the brand change.
- Approved incremental marketing spend to raise the profile of the TUI brand locally in order to promote the benefits and to manage the expectations of our customers in relation to the future of our enhanced products and services.
- Established a 'One Brand' programme team responsible for coordinating and monitoring the brand change activity across all source markets, with KPIs identified and tracked on a regular basis by both local and group colleagues and prompt corrective action taken to address issues as they arise.
- Taking a phased and focussed approach to the brand change by implementing in one source market at a time. This minimises the risk at a given point in time and allows us to gain learnings from the source markets undergoing transition and implement those learnings in the next source market. Our first brand transition successfully occurred in the Netherlands in the prior financial year 2016, with Nordics and Belgium source markets successfully transitioned in financial year 2017. The major brand transition in the UK&I of Thomson to TUI is now well underway in financial year 2018.
- Communicating both internally and externally across multiple media channels to drive brand awareness, with increased awareness through consistent marketing in key destination airports and changing of the livery on our aircraft in order to support greater awareness of the TUI Brand.

GROWTH STRATEGY

We have set ourselves a medium-term target of achieving at least 10 % growth in underlying EBITA at constant currency rates (see page 48). This will be driven by growth in own hotel and cruises content, and top line and efficiency improvements.

Additionally we have broadened our offering to customers by introducing extra flexibility into our packages, and expanded our long-haul offering by taking advantage of the capabilities of the 787s which we have and are due to receive via our order book. Note that availability of aircraft finance is a key assumption of our business model.

Whilst managing this expansion, we must continue to adapt to changes in consumer tastes and booking profiles, and we must continue to match our capacity to consumer demand. Asset utilisation – of aircraft, cruise ships and hotels – is critical to our financial success particularly when in a growth phase.

There is a risk that we could be unsuccessful in maximising opportunities to execute our expansion strategy. This could mean that we fail to achieve some of the initiatives we have embarked upon, which could result in us falling short against the overall growth targets we have set for the business.

- The Executive Board is very focussed on the strategy and mindful of the risks, so there is strong direction and commitment from the top.
- The Group Tourism Board plays an important role in coordinating, executing and monitoring the various growth initiatives.
- There are a number of initiatives underway to achieve growth which reduces the risk through diversification.
- Each of the business teams tasked with achieving an element of the growth strategy are still required to maintain sound financial discipline. The Group's investment criteria and authorisation processes must still be adhered to as we are not prepared to be reckless in the pursuit of growth.
- We continue to maintain strong relationships with the providers of aircraft finance.
- Monitoring of overall market conditions continues to occur so that plans can be adapted or contingency plans invoked if required.

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

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

RISKS WITH NO IMPACT ON UNDERLYING EBITA

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

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

OVERALL RISK ASSESSMENT

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

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

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

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

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

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

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

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

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

VIABILITY STATEMENT

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

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

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

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

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

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

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

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

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

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

→ *Audit Committee Report see from page 15*

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

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

2. USE OF IT SYSTEMS

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

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

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

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

3. SPECIFIC RISKS RELATED TO GROUP ACCOUNTING

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

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

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

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

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

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

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

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

5. DISCLAIMER

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

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

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

OVERALL ASSESSMENT BY THE EXECUTIVE BOARD AND REPORT ON EXPECTED DEVELOPMENTS

Actual business performance 2017 compared with our forecast

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

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

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

Expected changes in the economic framework

Expected development of gross domestic product

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

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

MACROECONOMIC SITUATION

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

MARKET TREND IN TOURISM

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

EFFECTS ON TUI GROUP

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

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

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

Expected development of Group turnover and earnings

TUI GROUP

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

Expected development of Group turnover, underlying EBITA and adjustments

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

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

TURNOVER

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

UNDERLYING EBITA

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

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

ADJUSTMENTS

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

ROIC AND ECONOMIC VALUE ADDED

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

Development in the segments in financial year 2018

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

HOTELS & RESORTS

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

CRUISES

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

SOURCE MARKETS

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

Expected development of financial position

Expected development of Group financial position

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

NET CAPEX AND INVESTMENTS

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

NET FINANCIAL POSITION

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

Sustainable development

CLIMATE PROTECTION AND EMISSIONS

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

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

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

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

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

Outlook for TUI AG

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

Opportunity Report

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

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

OPPORTUNITIES FROM THE DEVELOPMENT OF THE OVERALL FRAMEWORK

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

CORPORATE STRATEGY

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

OPERATIONAL OPPORTUNITIES

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

BUSINESS REVIEW

Why we do it – macroeconomic industry and market framework

Macroeconomic development

Development of gross domestic product

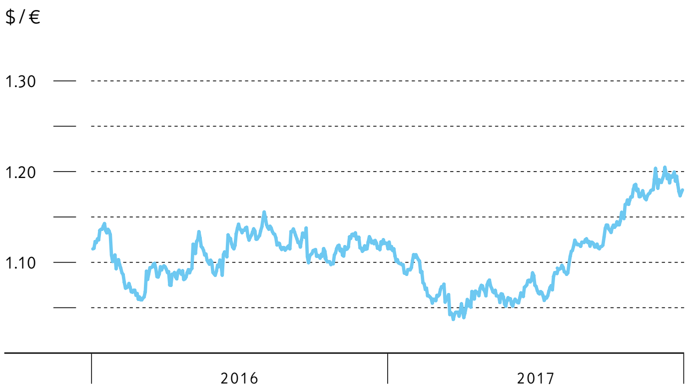
Var. %	**2017**	2016
World	**3.6**	**3.2**
Eurozone	2.1	1.8
Germany	2.0	1.9
France	1.6	1.2
UK	1.7	1.8
US	2.2	1.5
Russia	1.8	–0.2
Japan	1.5	1.0
China	6.8	6.7
India	6.7	7.1

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

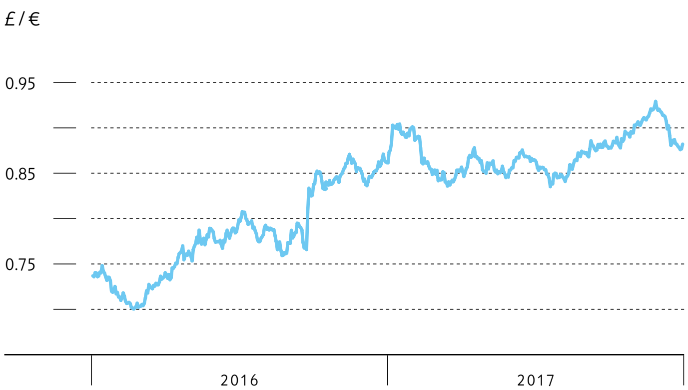
In calendar year 2017, the global upswing in economic activity gathered strength. In its outlook (IMF, World Economic Outlook, October 2017), the International Monetary Fund projects global growth to rise to 3.6 % in 2017. In advanced economies, the growth pick-up was broad-based, with indicators suggesting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

Key exchange rates and commodity prices

Exchange rate US Dollar



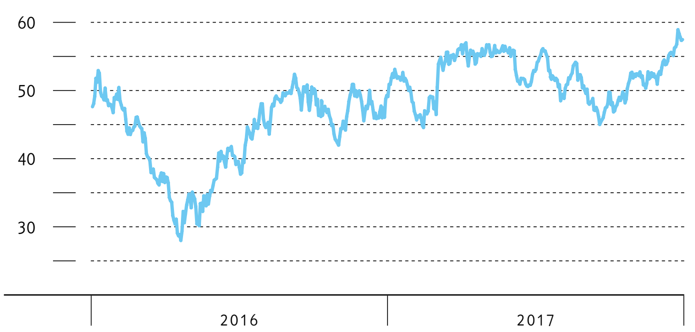
Exchange rate Sterling



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

Oil price

Brent ($ / Barrel)



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

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

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

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

Market environment and competition in Tourism

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

TOURISM REMAINS STABLE GROWTH SECTOR

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

Change of international tourist arrivals vs. prior year

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

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

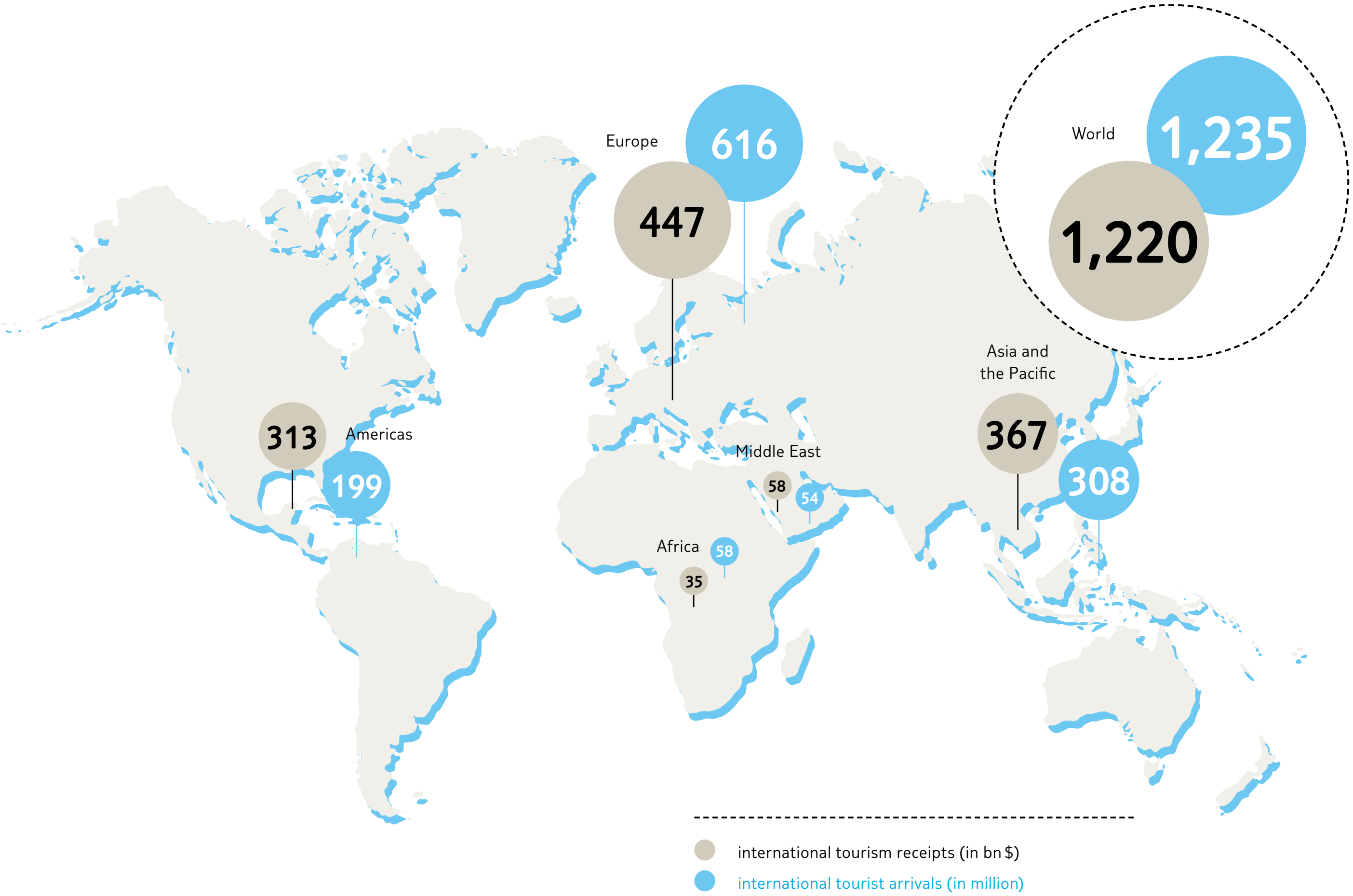
In the first half of calendar year 2017, the growth trend continued, with international tourist arrivals growing by 6.4 % during that period. This was the strongest H1 increase in seven years. Travel for holidays, recreation and other forms of leisure accounted for just over half of all international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

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

Business performance in the source markets see page 61

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

International tourist arrivals and receipts



Source: UNWTO, Tourism Highlights, 2017 Edition

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

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

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

HOTEL MARKET

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

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

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

CRUISE MARKET

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

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

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

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

Brand

STRONG TUI BRAND

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

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

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

Changes in the legal framework

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

Group earnings

Comments on the consolidated income statement

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

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

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

Turnover and cost of sales

Turnover

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

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

GROSS PROFIT

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

ADMINISTRATIVE EXPENSES

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

FINANCIAL RESULT

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

SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

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

RESULT FROM CONTINUING OPERATIONS

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

RESULT FROM DISCONTINUED OPERATION

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

GROUP PROFIT

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

SHARE IN GROUP PROFIT ATTRIBUTABLE TO TUI AG SHAREHOLDERS

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

NON-CONTROLLING INTERESTS

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

EARNINGS PER SHARE

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

EBITA, underlying EBITA und underlying earnings per share

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

Reconciliation to underlying EBITA

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

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

EBITA

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

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

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

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

Underlying EBITA

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

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

GAINS ON DISPOSAL

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

RESTRUCTURING COSTS

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

EXPENSES FOR PURCHASE PRICE ALLOCATIONS

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

ONE-OFF ITEMS

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

PRO FORMA UNDERLYING EARNINGS PER SHARE

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

Pro forma underlying earnings per share TUI Group

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

Reconciliation to EBITDA

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

EBITDA and underlying EBITDA

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

Segmental performance

Current and future trading in Tourism

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

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

Current Trading*

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

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

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

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

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

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

Hotels & Resorts

Hotels & Resorts

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

Turnover includes fully consolidated companies, all other KPI's incl. companies measured at equity
1 Group owned or leased hotel beds multiplied by opening days per year
2 Occupied beds divided by capacity
3 Arrangement revenue divided by occupied beds
4 Previous year's KPIs restated

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

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

Cruise

Cruises

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

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

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

Source Markets

Source Markets

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

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

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

Northern Region

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

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

Central Region

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

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

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

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

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

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

Western Region

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

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

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

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

Other Tourism

Other Tourism

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

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

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

All Other Segments

All Other Segments

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

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

Net assets

Development of the Group's asset structure

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

Structure of the Group's non-current assets

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

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

Vertical structural indicators

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

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

Horizontal structural indicators

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

Development of the Group's non-current assets

GOODWILL

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

PROPERTY, PLANT AND EQUIPMENT

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

Development of property, plant and equipment

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

COMPANIES MEASURED AT EQUITY

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

Structure of the Group's current assets

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

* Incl. receivables from derivative financial instruments

Development of the Group's current assets

FINANCIAL ASSETS AVAILABLE FOR SALE

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

CURRENT RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

ASSETS HELD FOR SALE

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

Unrecognised assets

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

Operating rental, lease and charter contracts

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

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

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

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

Financial position of the Group

Principles and goals of financial management

PRINCIPLES

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

GOALS

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

LIQUIDITY SAFEGUARDS

The Group's liquidity safeguards consist of two components:

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

LIMITING FINANCIAL RISKS

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

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

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

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

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

See from page 30 and from page 209

Capital structure

Capital structure of the Group

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

Capital ratios

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

* Percentage points

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

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

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

EQUITY

Composition of equity

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

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

PROVISIONS

Provisions mainly comprise provisions for pension obligations and provisions for typical operating risks classified as current or non-current, depending on expected occurrence. At the balance sheet date, they accounted for a total of € 2,278.7 m, up by € 350.0 m or 13.3 % year-on-year.

FINANCIAL LIABILITIES

Composition of liabilities

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

STRUCTURAL CHANGES IN FINANCIAL LIABILITIES

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

OVERVIEW OF TUI'S LISTED BONDS

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

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

Listed bonds

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

BANK LOANS AND OTHER LIABILITIES FROM FINANCE LEASES

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

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

→ *See section on Financial liabilities in the Notes, page 202*

OTHER FINANCIAL LIABILITIES

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

Off-balance sheet financial instruments and key credit facilities

OPERATING LEASES

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

→ *See page 65*

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

SYNDICATED CREDIT FACILITIES OF TUI AG

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

BILATERAL GUARANTEE FACILITIES OF TUI AG WITH INSURANCE COMPANIES AND BANKS

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

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

Commitments from finance leases

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

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

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

Ratings by Standard & Poor's und Moody's

TUI AG ratings

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

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

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

Financial stability targets

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

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

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

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

Interest and financing environment

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

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

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

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

Liquidity analysis

LIQUIDITY RESERVE

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

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

RESTRICTIONS OF THE TRANSFER OF LIQUID FUNDS

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

CHANGE OF CONTROL

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

See chapter Information required under takeover law

Cash flow statement

Summary cash flow statement

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

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

NET CASH INFLOW FROM OPERATING ACTIVITIES

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

NET CASH OUTFLOW/INFLOW FROM INVESTING ACTIVITIES

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

NET CASH OUTFLOW FROM FINANCING ACTIVITIES

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

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

Change in cash and cash equivalents

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

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

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

See page 140 and 223

Analysis of investments

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

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

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

Net capex and investments

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

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

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

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

Reconciliation of capital expenditure

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

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

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

Investment obligations

ORDER COMMITMENTS

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

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

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

NON-FINANCIAL GROUP DECLARATION

pursuant to the CSR Directive Implementation Act

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

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

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

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

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

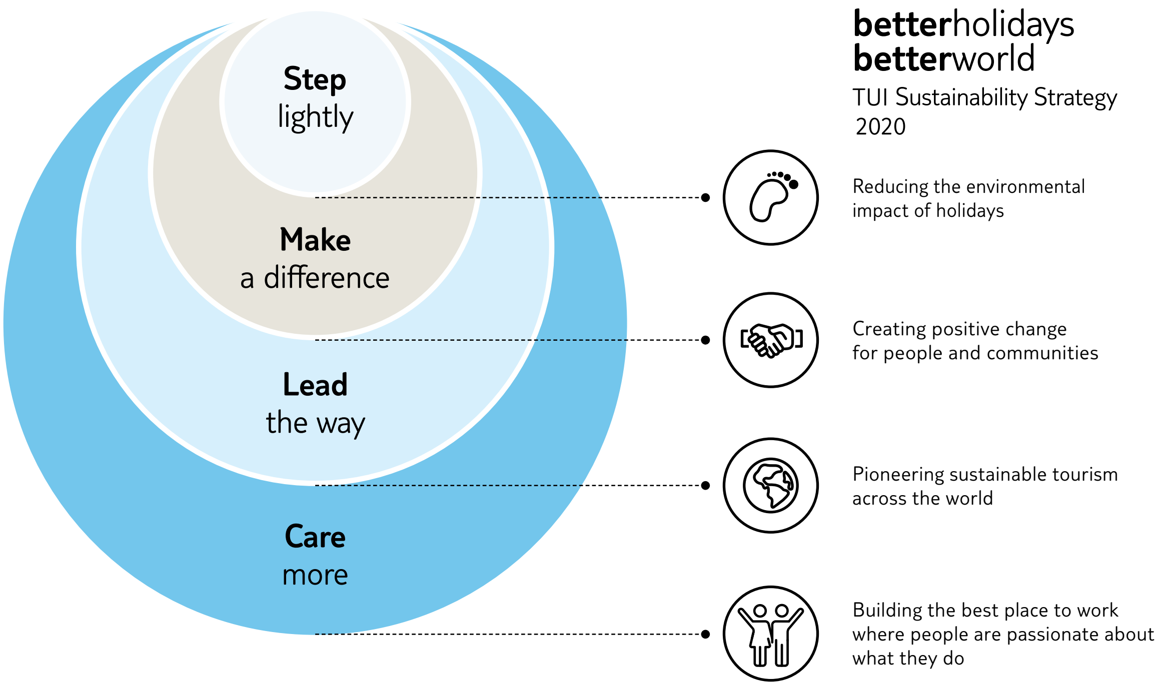
Sustainability reporting methodology document:
www.tuigroup.com/en-en/sustainability/reporting-downloads

Business model

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

Sustainability strategy and implementation

TUI Sustainability Strategy 2020



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

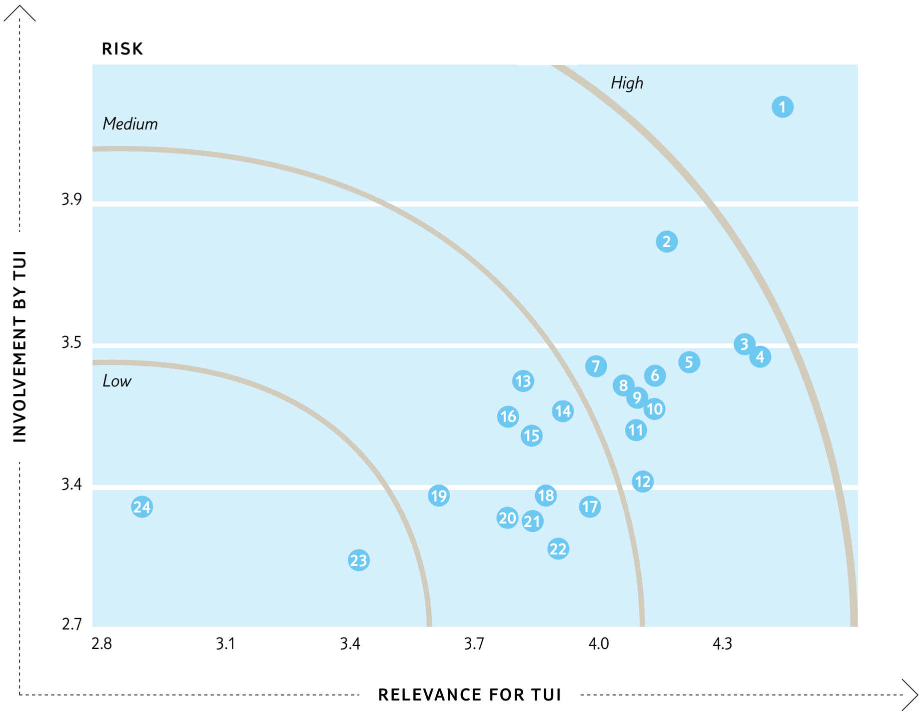
- **Step Lightly,** where we commit to operate the most carbon-efficient airlines in Europe and cut the carbon intensity of our operations by 10 % by 2020.
- **Make a Difference,** where we commit to deliver 10 million 'greener and fairer'* holidays per year by 2020, enabling more local people to share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

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

MATERIALITY

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

Stakeholder Survey

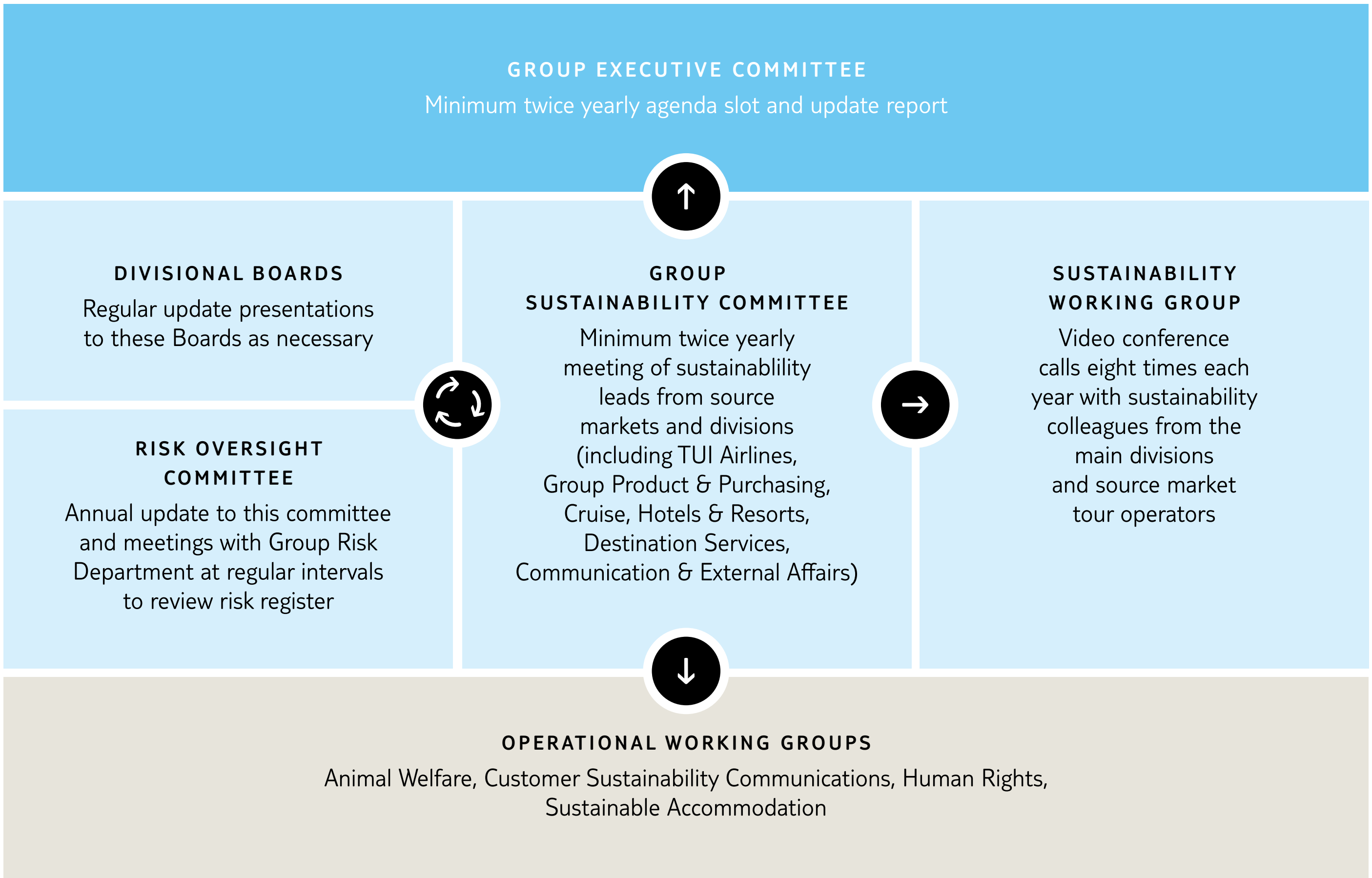


1 *Safety & Crisis Management*
2 *Compliance*
3 *Social Responsibility for Employees*
4 *Child Protection*
5 *Climate Change*
6 *Guest Awareness*
7 *Waste*
8 *Water*
9 *Development of Sustainable Products*
10 *Engagement in Destinations*
11 *Corporate Governance*
12 *Human Rights*
13 *Biodiversity*
14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

MANAGING SUSTAINABILITY

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

Managing sustainability-embedding



SUSTAINABILITY INDICES

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

The environment

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

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

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

Carbon dioxide emissions (CO_2)

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

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

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

Energy usage by business area

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

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

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

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

CLIMATE PROTECTION AND RESOURCE EFFICIENCY BY TUI AIRLINES

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

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

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

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

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

TUI Airlines – Fuel consumption and CO_2 emissions

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

* rpk=revenue passenger kilometer

TUI Airlines – Carbon intensity

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

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

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

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

CLIMATE PROTECTION AND RESOURCE MANAGEMENT IN CRUISES

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

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

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

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

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

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

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

Cruises – carbon intensity

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

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

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

CLIMATE PROTECTION AND RESOURCE MANAGEMENT BY HOTELS

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

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

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

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

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

Hotels – carbon intensity

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

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

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

Hotels – relative water consumption*

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

* Includes water for domestic, pool and irrigation purposes

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

Social issues and destination collaboration

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

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

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

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

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

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

Greener and fairer holidays

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

* Variance is given in percentage points

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

DIALOGUE

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

TUI CARE FOUNDATION

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

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

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

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

MULTI-STAKEHOLDER DESTINATION PROJECTS

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

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

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

EMPOWERING YOUTH IN MOROCCO

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

Investments into projects and good causes

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

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

Human Rights

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

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

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

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

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

CODES OF CONDUCT AND SUPPLY CHAIN

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

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

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

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

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

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

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

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

→ *For more information on certified hotels see page 79*

CHILD PROTECTION TRAINING

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

Child protection training

	2017
Colleagues trained on child protection issues	2,585

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

Our employees

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

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

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

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

HR STRATEGY PROJECTS

ONESHARE

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

EMPLOYER BRANDING

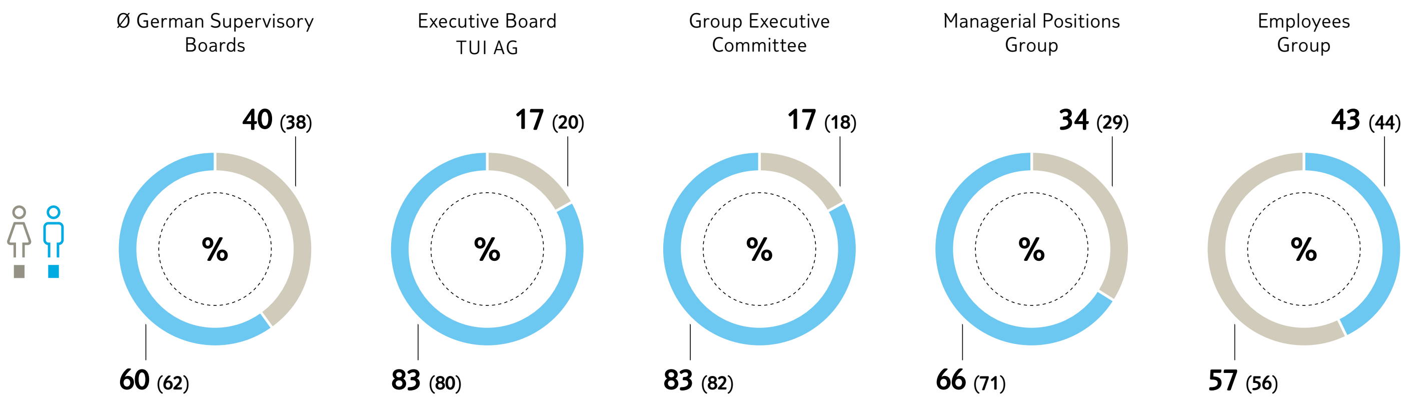
One of the projects developed as part of our HR strategy during the recent financial year was a new Employer Branding campaign. It will successively be rolled out in a total of 14 markets. Germany was the first source market to fully implement the campaign in summer 2017. TUI Group uses illustrations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

DIVERSITY@TUI

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

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

Proportion of Women



In brackets: previous year

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

Also see declaration in Corporate Governance Report on page 110

Proportion of women in managerial positions

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

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

TUIGETHER EMPLOYEE SURVEY

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

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

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

GLOBAL 60

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

STAFF INDICATORS

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

Personnel by segment

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

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

HOTELS & RESORTS

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

CRUISES

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

NORTHERN REGION

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

CENTRAL REGION

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

WESTERN REGION

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

OTHER TOURISM

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

ALL OTHER SEGMENTS

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

Personnel by region*

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

* By domicile of company

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

Other employee indicators

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

Personnel costs

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

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

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

OTHER HR ISSUES

PENSION SCHEMES

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

PART-TIME EARLY RETIREMENT

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

EMPLOYEE REPRESENTATIVES

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

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

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

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

MATERIAL RISKS

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

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

SECURITY, HEALTH & SAFETY

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

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

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

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

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

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

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

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

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

Anti-corruption and anti-bribery / Compliance

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

ANNUAL FINANCIAL STATEMENTS OF TUI AG

Condensed version according to German Commercial Code (HGB)

Earnings position of TUI AG

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

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

Income statement of TUI AG

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

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

TURNOVER AND OTHER OPERATING INCOME

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

EXPENSES

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

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

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

NET INCOME FROM INVESTMENTS

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

WRITE-DOWNS OF INVESTMENTS

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

INTEREST RESULT

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

TAXES

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

NET PROFIT FOR THE YEAR

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

Net assets of TUI AG

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

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

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

FIXED ASSETS

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

CURRENT ASSETS

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

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

TUI AG'S CAPITAL STRUCTURE

EQUITY

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

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

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

PROVISIONS

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

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

LIABILITIES

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

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

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

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

CAPITAL AUTHORISATION RESOLUTIONS

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

TUI SHARE

TUI share delivers significant outperformance post-merger

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

TUI share price continues to rise in financial year 2017

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

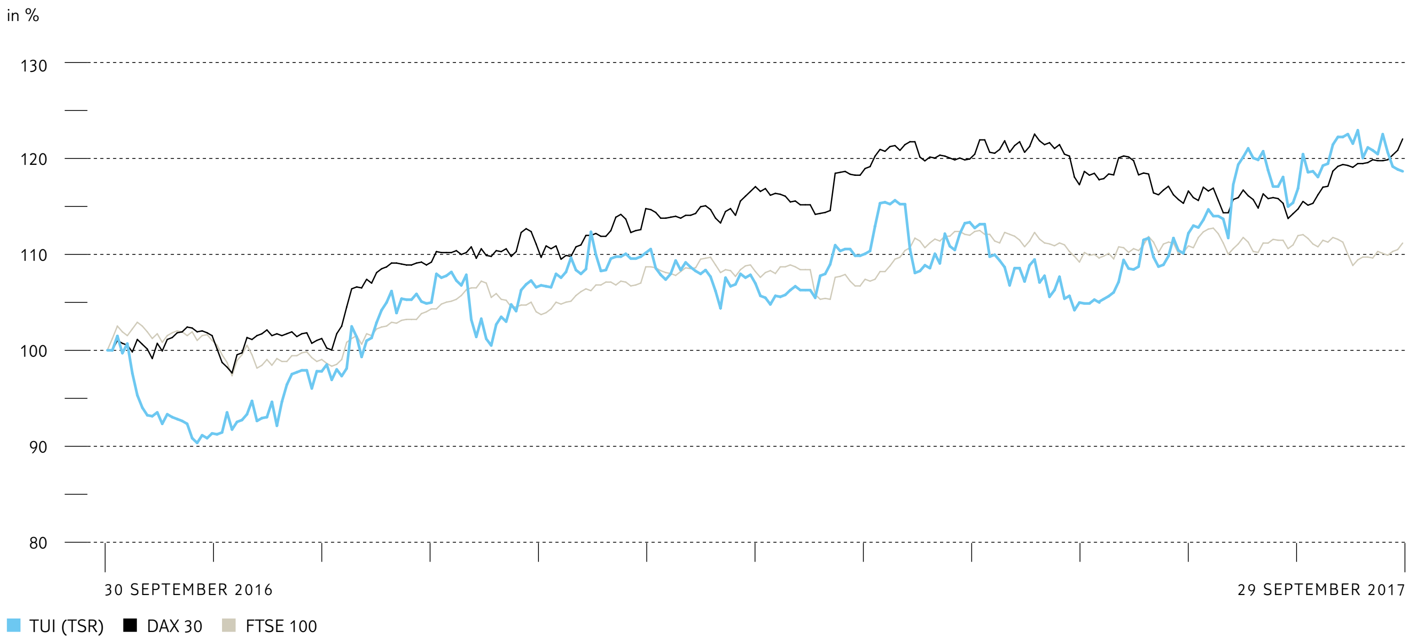
Following the dividend payment, TUI's share price showed higher overall volatility until the end of June 2017, although on average it remained largely flat. During that time, the publication of operating results or geopolitical events only triggered short-term price reactions.

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

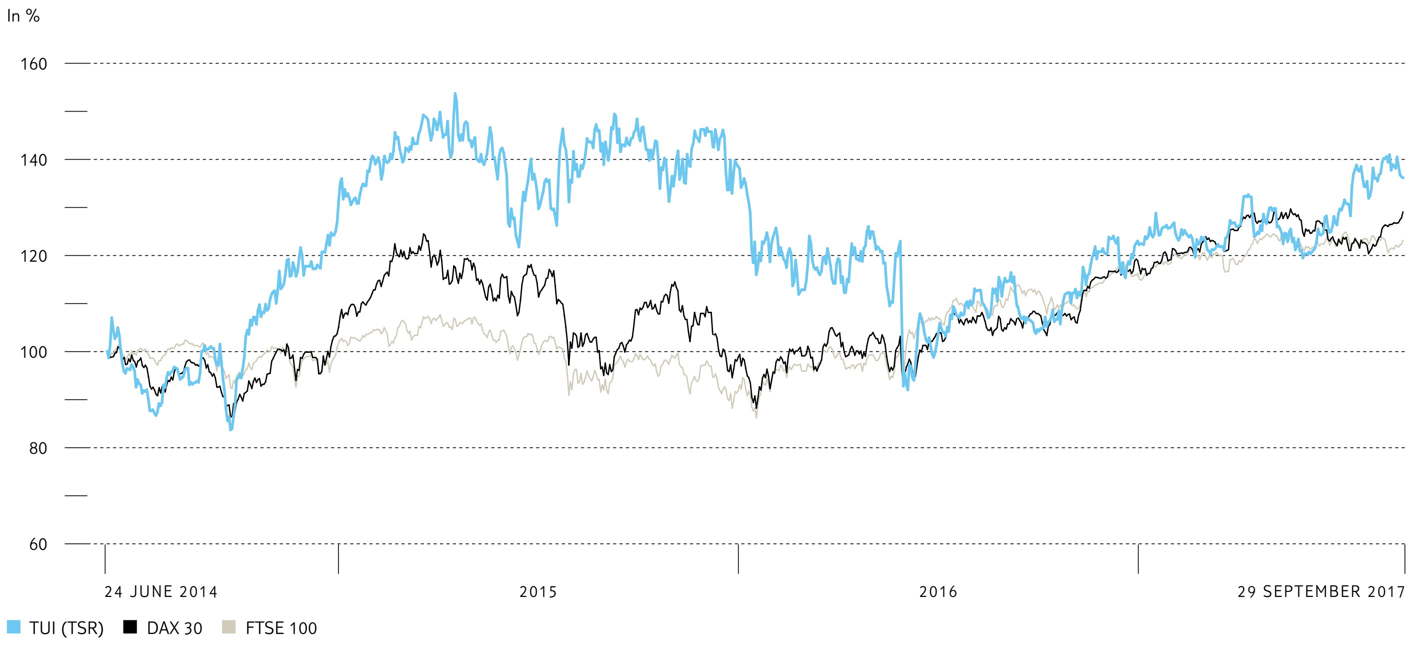
TUI share data

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

TUI share price (FINANCIAL YEAR 2017)



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



Long-term development of the TUI share (Xetra)

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

Quotations, indices and trading

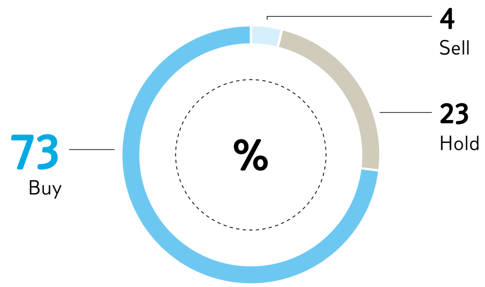
The TUI share has its primary listing in the Premium segment of the Main Market of the London Stock Exchange and is included in FTSE's UK Index Series including FTSE 100, the UK's major share index. It also has a secondary listing in the electronic trading system Xetra and at the Hanover Stock Exchange.

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

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

Analyst recommendations

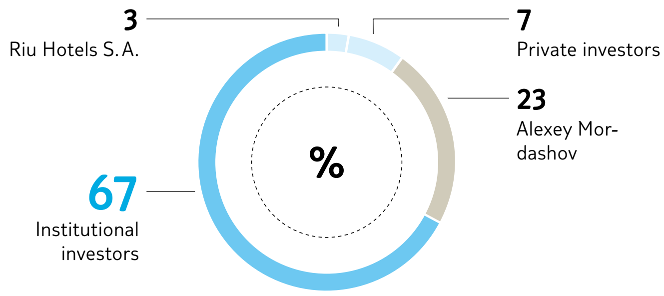
Analysts' Recommendations (30 SEPTEMBER 2017)



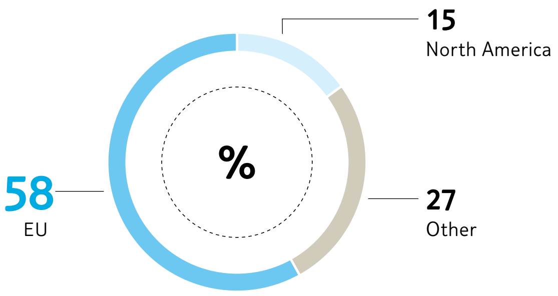
Analysis and recommendations by financial analysts are a key decision-making factor for institutional and private investors. In the financial year under review, more than 20 analysts regularly published studies on TUI Group. In September 2017, 73 % of analysts issued a recommendation to 'buy' the TUI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

Shareholder structure

Shareholder structure (30 SEPTEMBER 2017)



Geographical shareholder structure (30 SEPTEMBER 2017)



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

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

Dividend policy

Development of dividends and earnings of the TUI share

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

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

Investor Relations

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

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

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

INFORMATION REQUIRED UNDER TAKEOVER LAW

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

Composition of subscribed capital

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

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

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

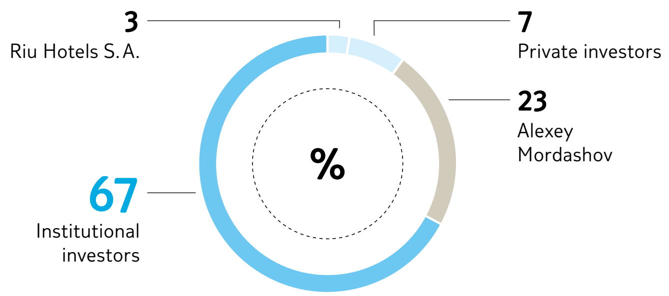
The Executive Board of TUI AG is not aware of any restrictions on voting rights or the transfer of shares.

EQUITY INTERESTS EXCEEDING 10 % OF THE VOTING RIGHTS

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

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

Shareholder structure (30 SEPTEMBER 2017)



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

Shares with special rights conferring powers of control

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

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

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

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

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

Powers of the Executive Board to issue or buy back shares

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

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

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

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

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

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

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

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

In the event of a change of control, the holders of the fixed-interest bond worth € 300.0 m issued in October 2016 must be offered a buyback. For the syndicated credit line worth € 1.75 bn, of which € 115.9 m had been used via bank guarantees as at the balance sheet date, a right of termination by the lenders has been agreed in the event of a change of control. This also applies to several bilateral guarantee lines with a total volume of £ 92.5 m, concluded with various insurance companies. At the balance sheet date, an amount of 32.9 m pounds had been used. Beyond this, there are no agreements in guarantee, leasing, option or other financial contracts that might cause material early redemption obligations that would be of significant relevance for the Group's liquidity.

Apart from the financing instruments mentioned above, a framework agreement between the Riu family and TUI AG includes a change of control clause. A change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board are attributable to a shareholder group. In the event of a change of control, the Riu family is entitled to acquire at least 20 % and at most all shares held by TUI in RIUSA II S.A.

A similar agreement concerning a change of control at TUI AG has been concluded with the El Chiaty Group. Here, too, a change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board are attributable to a shareholder group. In that case, the El Chiaty Group is entitled to acquire at least 15 % and at most all shares held by TUI in the joint hotel companies in Egypt and the United Arab Emirates.

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

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