

Economic Situation in Q2 2009

General economic situation

In the second quarter of 2009, recessionary tendencies continued both in the industrialised countries and in most emerging economies. However, the downward momentum of the world economy slowed down substantially towards the end of the first half of 2009. Following a sharp downturn at the beginning of the year, the decline in global trade almost came to an end. Industrial production continued to contract in the second quarter; however, the pace of the decline has moderated noticeably since February. Commodity prices have bottomed out. Sentiment indicators such as business and consumer climate have stabilised at a low level or have improved. The situation in the financial markets has also eased slightly. The comprehensive national economic stimulus packages, combined with monetary and fiscal policies massively supporting the economy worldwide, are increasingly taking effect. However, cyclical risks continue to be strong.

Special events in the quarter under review and after the closing date

The difficult global economic framework continued to adversely affect the business development of Hapag-Lloyd AG in the second quarter of 2009. Due to the high level of operating costs, the shareholders had to take measures to stabilise Hapag-Lloyd AG's equity and liquidity situation as the year progressed. In this connection, the Presiding Committee of TUI AG's Supervisory Board approved a set of measures to support Hapag-Lloyd AG on 28 July 2009. A special purpose vehicle formed by some shareholders of Hamburgische Seefahrtsbeteiligung 'Albert Ballin' GmbH & Co. KG and TUI AG has acquired Hapag-Lloyd AG's 25.1% share in Containerterminal Altenwerder (CTA) for a purchase price of €315m. TUI AG has contributed a sum of €215m towards financing the purchase. The transaction entails the option for Hapag-Lloyd to repurchase the stake as soon as possible in the light of the economic development and the financial situation. The city of Hamburg as a co-shareholder has guaranteed TUI AG a reflow of €25m as per 31 March 2011 for the amount exceeding its proportional stake.

On top of this acquisition further capital and funding measures including the application for government aid in order to secure the long-term financial situation of the Hapag-Lloyd Group are planned to be carefully reviewed and implemented in the next few weeks.

Consolidated turnover and earnings

Following the completion of the sale of container shipping, the 43.33% stake in 'Albert Ballin' Joint Venture GmbH & Co. KG has been measured at equity in TUI's consolidated financial statements since the second quarter of 2009. In line with its character as a shareholding, the proportional at equity earnings by the container shipping shareholding, to be included in consolidated earnings as of the second quarter of 2009, are not included in the TUI Group's operating management variable EBITA. Accordingly, the comments below will focus on the operative development of tourism and central operations (continuing operations).

Information about the development of container shipping operations in the second quarter of 2009 is provided on pages 13 et seq. of this report.

Since container shipping was no longer included in consolidation in the second quarter and the first half of 2009, respectively, a year-on-year comparison of cumulative turnover or earnings by division is of limited use only.

Development of turnover

Divisional turnover

€ million	Q2 2009	Q2 2008 restated	Var. %	H1 2009	H1 2008 restated	Var. %
Tourism	4,158.8	4,721.8	- 11.9	7,227.0	8,339.4	- 13.3
TUI Travel	4,007.9	4,575.5	- 12.4	6,922.3	8,041.2	- 13.9
TUI Hotels & Resorts	106.3	99.8	+ 6.5	202.1	193.7	+ 4.3
Cruises	44.6	46.5	- 4.1	102.6	104.5	- 1.8
Central operations	16.9	18.6	- 9.1	31.6	31.8	- 0.6
Continuing operations	4,175.7	4,740.4	- 11.9	7,258.6	8,371.2	- 13.3
Discontinued operation – Container shipping	–	1,510.1	n/a	1,118.9	2,961.3	- 62.2
Divisional turnover	4,175.7	6,250.5	- 33.2	8,377.5	11,332.5	- 26.1

In the second quarter of 2009, turnover by the continuing operations amounted to €4.2bn, down 12% year-on-year. The decline in turnover was in particular attributable to TUI Travel's diminishing business volume going along with the capacity cuts. In addition, the British tour operators generated lower turnover in tourism due to the weaker exchange rate of the British pound against the euro. Accumulated turnover for the first half of the year was 13% down year-on-year.

Following the deconsolidation of the container shipping operations, the discontinued operations have no longer posted any turnover as of the second quarter.

Development of earnings

Underlying divisional EBITA

€ million	Q2 2009	Q2 2008 restated	Var. %	H1 2009 restated	H1 2008 restated	Var. %
Tourism	106.6	87.7	+ 21.6	- 170.0	- 132.9	- 27.9
TUI Travel	98.0	72.4	+ 35.4	- 191.2	- 167.3	- 14.3
TUI Hotels & Resorts	12.1	15.3	- 20.9	24.8	28.5	- 13.0
Cruises	- 3.5	0.0	n/a	- 3.6	5.9	n/a
Central operations	- 11.7	13.4	n/a	- 21.8	20.3	n/a
All other segments	- 9.5	11.4	n/a	36.1	54.9	- 34.2
Consolidation	- 2.2	2.0	n/a	- 57.9	- 34.6	- 67.3
Continuing operations	94.9	101.1	- 6.1	- 191.8	- 112.6	- 70.3
Discontinued operation – Container shipping	0.0	114.9	n/a	- 221.7	133.4	n/a
Underlying divisional EBITA	94.9	216.0	- 56.1	- 413.5	20.8	n/a

Divisional EBITA

€ million	Q2 2009	Q2 2008 restated	Var. %	H1 2009 restated	H1 2008 restated	Var. %
Tourism	63.8	- 146.7	n/a	- 287.9	- 452.7	+ 36.4
TUI Travel	55.2	- 159.7	n/a	- 309.1	- 484.8	+ 36.2
TUI Hotels & Resorts	12.1	13.0	- 6.9	24.8	26.2	- 5.3
Cruises	- 3.5	0.0	n/a	- 3.6	5.9	n/a
Central operations	- 11.7	13.4	n/a	- 21.8	20.3	n/a
All other segments	- 9.5	11.4	n/a	36.1	54.9	n/a
Consolidation	- 2.2	2.0	n/a	- 57.9	- 34.6	n/a
Continuing operations	52.1	- 133.3	n/a	- 309.7	- 432.4	+ 28.4
Discontinued operation – Container shipping	- 8.1	89.0	n/a	894.2	90.1	+ 892.5
Divisional earnings (EBITA)	44.0	- 44.3	n/a	584.5	- 342.3	n/a

Continuing operations

Earnings adjusted for special effects of the continuing operations tourism and central operations (underlying divisional EBITA) decreased by €6m to €95m year-on-year in the second quarter of 2009. With tourism recording a stable business development, this was solely due to lower earnings by central operations. Accumulated underlying EBITA for the first half of the year declined to €-192m, down €80m.

In the second quarter of 2009, underlying earnings by tourism rose by €19m against previous year's level to €107m. TUI Travel's profit contribution rose year-on-year also benefitting from the change in Easter timing, with demand in the travel market impacted by the current economic climate in the quarter under review, as expected. Earnings by hotel operations fell year-on-year but, at €12m, remained on a stable earnings level year-on-year. Earnings by the cruises sector were impacted by start-up losses for TUI Cruises. Besides business volumes of Hapag-Lloyd Kreuzfahrten were down year-on-year. In the first half of the year, underlying earnings by tourism were €37m down year-on-year due to the disruption of travel to individual long-haul destinations in the first quarter and the current economic environment.

Underlying earnings by central operations declined by €25m to €-12m year-on-year in the second quarter of 2009. The decrease in earnings was mainly driven by the reversal of provisions no longer required, effected in the previous year. The decline in earnings of €42m in the first half of the year was also caused by the profit contributions from the valuation of hedges, included in 2008 figures.

Underlying divisional EBITA – Continuing operations

€ million	Q2 2009	Q2 2008 restated	Var. %	H1 2009 restated	H1 2008 restated	Var. %
Divisional EBITA	52.1	- 133.3	n/a	- 309.7	- 432.4	+ 28.4
<i>Gains on disposal</i>	-	-		-	-	
<i>Restructuring</i>	+ 7.4	+ 190.6		+ 34.9	+ 217.7	
<i>Purchase price allocation</i>	+ 11.1	+ 13.9		+ 21.6	+ 56.5	
<i>Other one-off items</i>	+ 24.3	+ 29.9		+ 61.4	+ 45.6	
Underlying divisional EBITA	94.9	101.1	- 6.1	- 191.8	- 112.6	- 70.3

In the second quarter of 2009, the Group's continuing operations included items worth a total of €43m to be adjusted. Reported divisional EBITA accounted for €52m in the second quarter, up €185m as against the comparative period in 2008, which was impacted in particular by the strategic realignment of TUI Travel's flight operations. Adjustments effected in the first half of 2009 totalled €118m, exclusively relating to TUI Travel.

Discontinued operation

In the framework of the early first-time application of the revised IAS 27, the gains on disposal from the sale of container shipping, carried in discontinued operations, had to be revalued. The resulting additional gain (€192m) was fully adjusted in underlying earnings by discontinued operations. Following the deconsolidation of container shipping, the TUI Group has no longer posted any earnings shown in EBITA as of the second quarter of 2009.

Consolidated earnings

Consolidated income statement

€ million	Q2 2009	Q2 2008 ¹⁾ restated	Var. %	H1 2009 ²⁾ restated	H1 2008 ¹⁾ restated	Var. %	
Turnover	4,175.7	4,740.4	- 11.9	7,258.6	8,371.2	- 13.3	
Cost of sales	3,785.5	4,449.9	- 14.9	6,950.0	8,017.6	- 13.3	
Gross profit/loss	390.2	290.5	+ 34.3	308.6	353.6	- 12.7	
Administrative expenses	342.1	322.6	+ 6.0	630.3	699.8	- 9.9	
Other income/other expenses	- 1.9	- 99.7	+ 98.1	2.6	- 82.1	n/a	
Impairment of goodwill	-	76.1	n/a	-	76.1	n/a	
Financial result	- 419.3	- 100.5	- 317.2	- 482.4	- 193.6	- 149.2	
Financial income	50.9	63.9	- 20.3	91.0	72.4	+ 25.7	
Financial expenses	470.2	164.4	+ 186.0	573.4	266.0	+ 115.6	
Share of results of joint ventures and associates	- 115.2	+ 5.3	n/a	- 111.4	+ 12.9	n/a	
Earnings before taxes on income	- 488.3	- 303.1	- 61.1	- 912.9	- 685.1	- 33.3	
Reconciliation to underlying earnings:							
Earnings before taxes on income	- 488.3	- 303.1	- 61.1	- 912.9	- 685.1	- 33.3	
Result from container shipping measured at equity	121.2	-	n/a	121.2	-	n/a	
Interest result from the valuation of loans to container shipping	371.0	-	n/a	371.0	-	n/a	
Interest result and earnings from the valuation of interest hedges	48.2	93.7	- 48.6	111.0	176.6	- 37.1	
Impairment of goodwill	-	76.1	n/a	-	76.1	n/a	
EBITA from continuing operations	52.1	- 133.3	n/a	- 309.7	- 432.4	+ 28.4	
Adjustments:							
Gains on disposal	-	-	-	-	-	-	
Restructuring	+ 7.4	+ 190.6		+ 34.9	+ 217.7		
Purchase price allocation	+ 11.1	+ 13.9		+ 21.6	+ 56.5		
Other one-off items	+ 24.3	+ 29.9		+ 61.4	+ 45.6		
Underlying EBITA from continuing operations	94.9	101.1	- 6.1	- 191.8	- 112.6	- 70.3	
Earnings before taxes on income	- 488.3	- 303.1	- 61.1	- 912.9	- 685.1	- 33.3	
Taxes on income	27.2	- 24.5	n/a	- 57.8	- 139.2	+ 58.5	
Result from continuing operations	- 515.5	- 278.6	- 85.0	- 855.1	- 545.9	- 56.6	
Result from discontinued operation	- 8.1	151.7	n/a	937.0	140.2	+ 568.3	
Group profit/loss	- 523.6	- 126.9	- 312.6	81.9	- 405.7	n/a	
attributable to shareholders of TUI AG	- 536.9	- 56.4	- 852.0	207.4	- 223.6	n/a	
attributable to minority interests	13.3	- 70.5	n/a	- 125.5	- 182.1	+ 31.1	
Group profit/loss	- 523.6	- 126.9	- 312.6	81.9	- 405.7	n/a	
Basic earnings per share	in €	- 2.16	- 0.24	- 800.0	+ 0.78	- 0.93	n/a
Diluted earnings per share	in €	- 2.16	- 0.24	- 800.0	+ 0.78	- 0.93	n/a

¹⁾ Restatement as a consequence of the application of IFRIC 13 and the purchase price allocations finalised until 31 December 2008.

²⁾ Caused by the application of the revised IFRS 3 and IAS 27 starting from 1 January 2009, the result from the discontinued operation of the 1st quarter 2009 has increased accordingly by € 191.5m due to a higher gain on disposal.

The year-on-year development of consolidated earnings was mainly characterised by the sale of container shipping in the first quarter of 2009. The consolidated income statement for the continuing operations reflects the seasonality of the tourism business, with positive earnings primarily generated in the second and third quarters of any one year due to the nature of the business.

Turnover and cost of sales

Turnover comprised the turnover of the continuing operations, i.e. tourism and central operations. Turnover declined by 12% year-on-year to €4.2bn in the second quarter of 2009 and fell by 13% to €7.3bn in the first half of the year. The decline was driven in particular by the year-on-year weakening of the exchange rate of the British pound and TUI Travel's diminishing business volume caused by

the capacity cuts. Turnover was presented alongside the cost of sales, which also decreased due to the lower business volume, the weakness of the British pound and cost reductions in the framework of integration measures. A detailed breakdown of turnover and the development of turnover is presented in the section 'Consolidated turnover and earnings'.

Gross profit/loss	Gross profit as the balance of turnover and the cost of sales rose by 34% year-on-year to €390m in the second quarter of 2009. In the first half of the year, gross profit amounted to €309m, down 13%.
Administrative expenses	Administrative expenses comprised expenses not directly allocable to the turnover transactions, such as expenses for general management functions. At €342m, they were up 6% year-on-year in the second quarter. For the first half of the year, they fell 10% year-on-year, in particular due to the weakness of the British pound and synergies delivered in the wake of the integration of TUI's former tourism division and First Choice.
Other income/Other expenses	Other income and other expenses primarily comprised profits and losses from the sale of fixed asset items. The balance of income and expenses totalled €-2m in the second quarter, an improvement of 98% against the comparative 2008 figure, which had increased due to expenses for sale-and-lease-back transactions. In the first half of the year, netted income and expenses rose by €85m year-on-year for the same reason.
Impairment of goodwill	No goodwill impairments were effected in the second quarter of 2009.
Financial result	<p>The financial result comprised the interest result and the net result from marketable securities. At €-419m, the financial result declined by 317% year-on-year in the second quarter of 2009 and comprised financial income of €51m (previous year: €64m) and financial expenses of €470m (previous year: €164m), which were up 186%. Financial expenses for the second quarter of 2009 included a charge of interest effects of €371m on the loans extended to container shipping.</p> <p>Adjusted for this expense, the financial result rose by €82m year-on-year in the first half of 2009. This positive trend mainly resulted from the substantial improvement in the financial situation of the continuing operations following the sale of maritime assets to Hapag Lloyd AG and the loans extended to container shipping. An additional positive effect was generated by the overall fall in interest rate levels year-on-year.</p>
Share of results of joint ventures and associates	The share of results of joint ventures and associates comprised the share in net profit for the year of the associated companies and joint ventures as well as impairments of the goodwill of these companies. The significant decline in the share of results of joint ventures and associates in the second quarter and the first half of 2009 was attributable to the first-time inclusion of the 43.33% stake held by the TUI Group after the sale of the majority stake in container shipping in March 2009 as an associate in the consolidated financial statements. The proportionate negative earnings of container shipping accounted for €-121m in the second quarter of 2009.

Underlying EBITA from continuing operations

In the second quarter of 2009, underlying earnings by the continuing operations totalled €95m, down 6% year-on-year. EBITA was adjusted for gains on disposal, restructuring expenses, purchase price allocations and one-off items. The adjustments are outlined in detail in the section 'Consolidated turnover and earnings' and the comments concerning the individual divisions.

Taxes on income

Taxes on income comprised taxes on profits from the business activities of the continuing operations. In the second quarter they totalled €27m, following €-25m in 2008. The tax income for the first half of 2009 was attributable to the seasonality of the tourism business, since the remeasurement of the investment for the share of profit or loss for container shipping and the charges for the loan to the container shipping did not affect deferred taxes.

Result from discontinued operation

The result from the discontinued operation comprised the operating income and expenses of container shipping until the disposal date as well as the gain on disposal. In accordance with the early application of IAS 27, the gain on disposal for the first quarter of 2009 from the sale of the majority stake in container shipping associated with the loss of control was restated. As a result, the gain on disposal (after deduction of the cost to sell) for the first quarter of 2009 rose by €192m. Taking account of subsequent purchase price adjustments, an overall positive gain on disposal of €1,135m is now carried. A detailed breakdown is provided in the section 'Result from discontinued operation' in the notes.

Group profit/loss

In the second quarter, Group profit/loss declined by €397m to €-524m. For the first half of the year, a Group profit of €82m was carried (previous year: Group loss of €-406m). The increase in the Group result for the first half of 2009 resulted from the charges carried in 2008 in the framework of the strategic realignment of TUI Travel's flight operations.

Minority interests

Minority interests in Group profit/loss amounted to €13m for the second quarter and €-126m for the first half of 2009. They related to the outside shareholders of TUI Travel PLC and companies in the TUI Hotels & Resorts sector.

Earnings per share

After deduction of minority interests, TUI AG shareholders accounted for €-537m (previous year: €56m) of Group profit in the second quarter of 2009. As a result, basic earnings per share amounted to €-2.16 (previous year: €-0.24) in the second quarter.

Performance indicators

Key figures of the consolidated statement of the continuing operations

€ million	Q2 2009	Q2 2008 restated	Var. %	H1 2009 restated	H1 2008 restated	Var. %
Earnings before interest, taxes on income, depreciation, impairment and rent (EBITDAR)	371.0	185.1	+ 100.4	316.7	194.7	+ 62.7
Operating rental expenses	220.2	190.7	+ 15.5	429.2	365.6	+ 17.4
Earnings before interest, taxes on income, depreciation and impairment (EBITDA)	150.8	- 5.6	n/a	- 112.5	- 170.9	+ 34.2
Depreciation/amortisation less reversals of depreciation ¹⁾	98.7	127.7	- 22.7	197.2	261.5	- 24.6
Earnings before interest, taxes on income and impairment of goodwill (EBITA)	52.1	- 133.3	n/a	- 309.7	- 432.4	+ 28.4
Impairment of goodwill	-	76.1	n/a	-	76.1	n/a
Earnings before interest and taxes on income (EBIT)	52.1	- 209.4	n/a	- 309.7	- 508.5	+ 39.1
Interest result	- 419.2	- 93.7	- 347.4	- 482.0	- 176.6	- 172.9
Equity result Container shipping	- 121.2	-	n/a	- 121.2	-	n/a
Earnings before taxes on income (EBT)	- 488.3	- 303.1	- 61.1	- 912.9	- 685.1	- 33.3

¹⁾ on property, plant and equipment, intangible assets, financial and other assets

Operating rental expenses

Operating rental expenses of the continuing operations amounted to €220m (previous year: €191m) in the second quarter and €429m (previous year: €366m) in the first half of the year. The rise in rental and leasing expenses was caused by the strategic realignment of flight operations (sale-and-lease-back agreements) of the TUI Travel Group. This increase was partly offset by capacity cuts in aviation and currency effects resulting from the development of the British pound.

Interest result

In the second quarter of 2009, the interest result of the continuing operations totalled €-419m (previous year: €-94m). The accumulated interest result for the first half of the year stood at €-482m (previous year: €-177m). Financial expenses for the second quarter of 2009 comprised in particular charges for interest effects on the loans totalling €371m extended to 'Albert Ballin' Holding GmbH & Co. KG and Hapag-Lloyd AG, resulting from a comparison between the currently appropriate interest rates in the light of the current financial and risk position of container shipping and the interest rates agreed in March 2009. Adjusted for this expense, the interest result rose by €66m in the first half of the year. This positive trend was mainly attributable to the significant improvement in the financial situation of the continuing operations following the sale of the maritime assets to Hapag-Lloyd AG and the loans extended to container shipping. An additional positive effect was generated by the overall fall in interest rate levels year-on-year.

Net assets and financial position

The Group's balance sheet total fell by 11% to €14.9bn as against the end of 2008. The changes in the consolidated statement of financial position partly resulted from the business cycle in tourism. Essential changes in net assets and the financial position were also caused by the sale of container shipping and the acquisition of an entrepreneurial stake of 43.33% in 'Albert Ballin' Joint Venture GmbH & Co. KG.

Assets and liabilities

€ million	30 Jun 2009	31 Dec 2008 restated	Var. %
Non-current assets	9,407.2	7,346.3	+ 28.1
Current assets	5,510.3	9,365.9	- 41.2
Assets	14,917.5	16,712.2	- 10.7
Equity	2,237.4	2,242.5	- 0.2
Provisions	2,070.1	2,148.9	- 3.7
Financial liabilities	4,552.2	4,974.7	- 8.5
Other liabilities	6,057.8	7,346.1	- 17.5
Liabilities	14,917.5	16,712.2	- 10.7

Non-current assets

As at 30 June 2009, non-current assets accounted for 63% of total assets, compared with 44% as at 31 December 2008. Non-current assets rose from €7.3bn to €9.4bn in the period under review. This increase mainly resulted from the acquisition of an entrepreneurial stake of 43.33% in 'Albert Ballin' Joint Venture GmbH & Co. KG and the loans extended to 'Albert Ballin' Holding GmbH & Co. KG in the framework of the sale of container shipping.

Current assets

As at 30 June 2009, current assets accounted for 37% of total assets, following 56% as at 31 December 2008. Current assets declined from €9.4bn as at 31 December 2008 to €5.5bn as at 30 June 2009. The change mainly resulted from the reduction in assets held for sale due to the sale of container shipping.

Equity

Equity totalled €2.2bn as at 30 June 2009. The equity ratio stood at 15%, compared with 13% as at the end of the 2008 financial year. Detailed information on the changes is provided under 'Changes in equity' in the notes to this half-year financial report.

Provisions

Provisions mainly comprised provisions for pension obligations, effective and deferred tax provisions and provisions for typical operating risks. As at 30 June 2009, they totalled €2.1bn and were thus 4% down on their level as at 31 December 2008.

Financial liabilities

As at 30 June 2009, financial liabilities consisted of non-current liabilities of €3.4bn and current financial liabilities of €1.1bn. As at 31 December 2008, non-current financial liabilities stood at €4.0bn, with current financial liabilities of €1.0bn. At the end of the first half of the 2009 financial year, net debt totalled €2.6bn, following €4.1bn as at the end of the 2008 financial year.

Other liabilities

As at 30 June 2009, other liabilities amounted to €6.1bn, down 18% or €1.3bn as against 31 December 2008. The decline was primarily attributable to the reduction in debt in connection with assets held for sale due to the sale of container shipping.