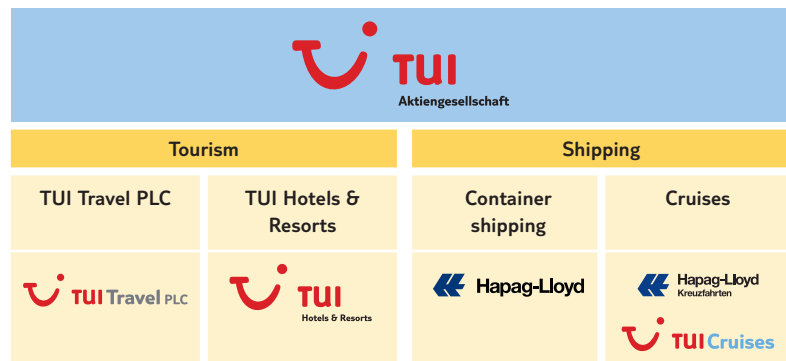


strengthening of the high-margin specialist business, the new TUI Travel PLC has additionally expanded the Group's tourism division.

### Expansion of cruise activities

The Letter of Intent to form TUI Cruises, in which TUI AG and Royal Caribbean Cruises Ltd. will each hold a 50 per cent interest, paved the way for entry into the German volume market for premium cruises in the 2007 financial year. The formation of the new company, TUI Cruises, is still subject to approval by the competent anti-trust authorities. TUI Cruises will begin service with one ship in 2009. With one new build per year planned for 2011 and 2012, the fleet will continue to grow.

## Group structure



Following the completion in 2006 of the realignment of TUI as a pure services group embracing the two pillars tourism and shipping, the tourism was further supported in the completed 2007 financial year with the acquisition of First Choice Holidays PLC. The tourism division consists of TUI Travel PLC and TUI Hotels & Resorts. The shipping division consists of container shipping and cruise operations. Tourism and shipping, the core businesses, continue to account for around 70% and 30%, respectively, of Group turnover.

### TUI AG

TUI AG is the Group's parent company headquartered in Hanover. Via its affiliates, it holds direct or indirect interests – usually majority-interests – in the main Group companies conducting the Group's operative business in the individual countries. Overall, TUI AG's group of consolidated companies comprised 729 direct and indirect subsidiaries at the balance sheet date, 46 of which were based in Germany and 683 abroad. A further 17 associated companies and 33 joint ventures were included in TUI AG's consolidated financial statements on the basis of at equity measurement.

#### Group parent company

#### 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 on a basis of trust in controlling and monitoring the Company. The Executive Board is responsible for the overall management of the Company.

The appointment and dismissal of Board members is based on sections 84 f. 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 ff. of the German Stock Corporation Act in combination with section 24 of TUI AG's Articles of Association.

#### ***Board structure***

As at the balance sheet date, the Executive Board of TUI AG consisted of six members: the CEO and five other Board members in charge of Finance, Controlling, Human Resources/Legal, Tourism and Shipping.

#### **TUI Travel PLC**

In the 2007 financial year, the focus of activities in the tourism division was on the establishment of TUI Travel PLC, formed by the merger of the TUI Group's tourism division with the British First Choice Holidays PLC. TUI AG contributed all distribution and tour operator activities of source markets Central Europe, Northern Europe and Western Europe and the associated airline activities in TUI Travel PLC. In addition, the Group's incoming agencies previously included in the destinations sector were transferred to the new TUI Travel PLC. TUI Travel PLC operates in 180 countries worldwide and serves more than 30 million customers.

TUI Travel PLC is headquartered in the UK and has been listed on the London Stock Exchange since 3 September 2007. As at the balance sheet date, TUI AG held 51 per cent, i.e. the majority, of shares in the company. The new company and its subsidiaries are fully comprised in the TUI Group's financial statements.

TUI Travel PLC's business is structured into four sectors: Mainstream Holidays, Specialist Holidays, Activity Holidays and Online Destination Services.

#### ***Mainstream Holidays Sector***

Mainstream is the largest sector within TUI Travel PLC and comprises the sale of airline, accommodation and other tourism services, both as individual components and package tours. This sector pools several vertically integrated tour operators such as Thomson, First Choice and TUI Deutschland. Activities cover the three source markets Central Europe, Northern Europe and Western Europe.

#### ***Specialist Holidays Sector***

Specialist comprises three segments: Destination, Premium and Lifestages. The Destination Segment covers eleven source markets whereby the products on offer focus on specific destinations. The Premium Segment covers five brands specialised in premium leisure travel experiences in Europe, Asia and the Caribbean. The Lifestages Segment offers tours specifically tailored to suit particular customer demographics.

#### ***Activity Sector***

Activity comprises a large number of tour operators for activity-oriented leisure travel in three segments: Marine, Adventure and Experiential. The Marine Segment, for instance, offers products by the leading charter yacht providers, while the Experiential Segment offers escorted cultural and luxury travel experiences.

**Online Destination Services Sector**

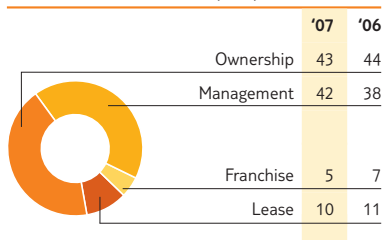
Online Destination Services consists of incoming agencies that provide services such as guest assistance, transfers, excursions and roundtrips. This sector also sells accommodation online to both consumers and businesses, and provides specialised services to cruise lines and the management of meetings and incentives activities for corporate clients.

**TUI Hotels & Resorts**

TUI Hotels & Resorts is Europe's largest holiday-hotel provider based in Hanover. It includes hotel companies held with majority interests, joint ventures with local partners, companies, held as a financial interest and hotels with management contracts. TUI Hotels & Resorts links tour operators and hotel partners and thus ensures the strong positioning of the hotel brands within the Group and compared with the competition. Apart from strategic planning and operative support, it also coordinates marketing and distribution activities as well as ecological and social commitment of the hotel companies to coordinate sustainable tourism development.

**Financing structure**

**TUI Hotels & Resorts (in %)**



In 2007, the TUI Hotels & Resorts sector comprised a total of 237 hotels with a total of 144,470 beds. The year-on-year change was mainly attributable to the transfer of the Nordotel, Atlantica and Gran Resort companies and their hotel facilities to TUI Travel PLC. 199 of the 237 hotels were four- or five-stars. 43% were owned by the respective hotel company, while 42% were operated within management contracts, 10% were leased. For 5% of the resorts franchise agreements consisted.

**TUI Hotels & Resorts**

Hotel brand	3-stars	4-stars	5-stars	Total Hotels	Beds	Main sites
Riu	10	66	27	103	73,437	Spain, Caribbean
Magic Life	6	11	0	17	14,405	Turkey, Tunisia, Egypt
Grupotel	16	16	2	34	13,468	Balearic Islands
Iberotel	0	13	8	21	12,086	Egypt, Turkey
Robinson	0	17	3	20	11,114	Spain, Greece, Turkey
Grecootel	0	11	8	19	9,129	Greece
Dorfhotel	0	4	0	4	2,113	Germany, Austria
Other hotel companies	6	12	1	19	8,718	-
<b>Total</b>	<b>38</b>	<b>150</b>	<b>49</b>	<b>237</b>	<b>144,470</b>	



Riu is the largest hotel company in the TUI Hotels & Resorts portfolio. The Majorca-based family enterprise stands for a high level of professionalism and excellent service. Most of the hotels are in the premium and comfort segments and are located in Spain and the Caribbean.



Magic Life is the all-inclusive TUI Hotels & Resorts club brand based in Austria. It offers a holiday concept for families with children with a value for money and entertainment programmes in an international environment. Most of the facilities are in the comfort segment and are located in Turkey, Tunisia and Egypt.



The Majorcan hotel group Grupotel is one of the most important in the Balearics, offering apartments, aparthotels and also luxury resorts. Most of the facilities are placed in the comfort segment.



Iberotel hotels offer a high level of hotel comfort and excellent restaurants. Most of the premium hotels are located in Egypt and Turkey. They offer top-quality products due to compliance with the highest quality, safety and environmental standards.



Robinson, the quality and market leader in the premium club holiday segment, is characterised by its professional sport, entertainment and event portfolio. Moreover, the clubs offer high-quality hotel services, comprehensive service and a generous architecture. Most of the clubs are located in Greece, Spain and Turkey and also in Switzerland and Austria. The hotels also meet ambitious environmental standards.



Grecotel is a leading premium provider among Greek hotel brands. Its concept focuses on cultural and environmental aspects. Its high-quality restaurants primarily use local agricultural products.



The Dorffhotels are located in the countryside of Germany and Austria. They combine the advantages of holiday apartments which are primarily focused on families with the comfort of hotels.



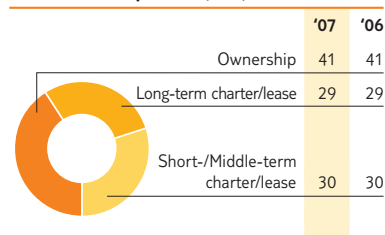
The 'Toscana Resort Castelfalfi' project was initiated in March 2007 with the acquisition of a plot of land in Tuscany. On eleven square kilometres of land hosting a medieval village with a church, and castle and a golf course, tourism resorts are planned to be built following the redevelopment of the existing site. Alongside holiday apartments and villas, Robinson and Iberotel hotel arrangements are projected. The focus is also on sustainability and environmental compatibility. The project will embrace the use of renewable energies and the supply of agricultural products grown on its own farms for the customers.

### Container shipping

The Hamburg-based Hapag-Lloyd AG is the world's fifth largest container line. TUI AG holds 100 per cent of the shares in Hapag-Lloyd AG.

#### Financing structure

##### Container ship fleet (in %)



Hapag-Lloyd's fleet included a total of 141 container ships as at 31 December 2007, 58 of which were owned by the Group, while 41 ships were operated within longer-term leasing and charter agreements. In addition, Hapag-Lloyd operated 42 ships chartered on short-term agreements. The average age of the fleet was 8.1 years. In the last financial year, five ships with a total capacity of around 35,000 standard containers (TEU) were delivered whereof two ships were operated in long-term charter. The order book for new ships has two deliveries each for 2008 and 2009 and a further six each for 2010 and 2011. Each new ship will have a capacity of 8,750 TEU.

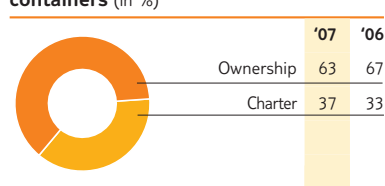
The table below provides an overview of Hapag-Lloyd's container ships, listed according to size groups and indicating capacity and average age for each category.

### Container ship fleet

Slot capacity in TEU	Total number	Average age	Capacity TEU
Up to 2,300	47	15.0	81,000
2,300 – 4,000	39	14.9	113,000
4,000 – 6,000	39	7.3	173,000
over 6,000	16	3.0	126,000
<b>Total</b>	<b>141</b>	<b>8.1</b>	<b>493,000</b>

As at 31 December 2007

### Financing structure containers (in %)



In addition, Hapag-Lloyd had containers with a capacity of 1.1 million TEU as at 31 December 2007. Of which at around 61% were containers with the standard size of 40 feet or special sizes and 39% of the remaining were 20 feet containers. Besides standard and reefer containers, it included special containers such as open-top containers with tarpaulin, flatrack containers without side panels or roof or platform container for oversize cargo. Around 63% of the containers were owned by Hapag-Lloyd while the remaining containers were chartered.

### Container stock

TEU	Capacity
Standard containers	990,000
Reefer containers	68,000
Special containers	57,000
<b>Total</b>	<b>1,115,000</b>

As at 31 December 2007

The container ships are used in various trade lanes, each comprising different routes (line services) linking different harbours. Hapag-Lloyd operates five trade lanes.

#### Far East

The Far East trade lane comprises transportation between Europe and Asia. This trade lane covers 21 routes, the majority of which connect Europe with Asian countries such as China, Japan and India. Further routes link Northern and Southern Europe, as well as Northern Europe and Africa. This trade lane is foremost characterised by the European transport operations involving Asian emerging economies.

#### Trans-Pacific

The Trans-Pacific trade lane serves to handle goods transports between North America and Asia. Hapag-Lloyd operates 13 routes in this trade lane, the majority of which connect North American westcoast and Asian eastcoast.

#### Atlantic

The Atlantic trade lane with its 16 routes connecting Europe with North America again handled as in 2006 the largest transport volume. The routes connect North America and Northern Europe. Further routes link North America and the Mediterranean region and one route connects North America and Africa.

#### Latin America

The Latin America trade lane connects South America with North America and Europe. One of the ten routes also connects various harbours within South America.

## *Australasia*

The 17 routes of the Australasia trade lane serve to transport goods between Australia and Asia. They include intra-Asian routes, which had the largest portion of the freight volume, and routes which connect Australia with all continents, except Africa.

### **Cruises**

With its four cruise ships in the premium and luxury categories, Hapag-Lloyd Kreuzfahrten GmbH formed the core of the TUI Group's cruise operations in the 2007 financial year. Its product portfolio focuses on lifestyle and expedition cruises for the German-speaking market. Its flagship is the five-star-plus vessel 'Europa'. This rating was awarded by the Berlitz Cruise Guide for the seventh time in succession. It is the only ship in the world to be hold this rating. The 'Europa' primarily cruises on world tours. The 'Columbus', a three-star-plus vessel, also cruises the world's seven seas; moreover, it is the only ocean-going cruise liner capable of cruising the Great Lakes in North America. The 'Hanseatic' is used for expedition cruises to the Arctic and Antarctic. In 2007, it again completed a successful tour through the Northwest Passage. It is the world's only five-star passenger vessel with the highest Arctic class. The 'Bremen', a four-star vessel – also awarded the highest Arctic class – travels to similar destinations.

In the financial year 2007, the way for entry into the German volume market for premium cruises was paved by the planned formation of the company TUI Cruises. As from spring 2009, TUI Cruises will offer classic cruises in the 4-star segment in the German-speaking market, jointly with its partner company Royal Caribbean.

## Business activities

### **Tourism**

Total consumer expenditure in the worldwide travel and tourism market is estimated to have grown by 3.4% in 2007 (source: WTTC report, 2007). The largest source markets of TUI Travel PLC grew by 2.6%. Over recent years, customer requirements and thus markets have undergone structural changes. Customers demand greater flexibility and wider choice, and consider their holidays as an individual experience. Accordingly, product portfolios increasingly include modular tours. The market for low-cost airline products is also growing. The large choice on the internet ensures transparency, and many customers select and book their tour independently on the web.

In the 2007 financial year, the market for business and leisure hotels developed dynamically, following a consolidation phase. Several hotel chains significantly expanded their activities, investing above all in the luxury segment but also in the budget segment. In terms of destinations, hotel capacity was expanded in particular in Europe, but Mexico, the Caribbean, the United Arab Emirates and Asia also recorded growth in bed capacity. Average prices for hotel rooms only rose slightly year-on-year, with occupancy rates up year-on-year and in some cases showing significant improvements.

## *Market*

### **Competition**

Despite the consolidation in the European tourism industry in 2007 through the merger between Thomas Cook and MyTravel to create Thomas Cook Group PLC, and the merger of TUI and First Choice to create TUI Travel PLC, competition in the tourism market remains strongly diversified. Key competitors range from tour operators with integrated or non-integrated business models to online providers, hotel companies as well as scheduled and low-cost airlines. TUI Travel PLC is the world's largest integrated tour operator, with Thomas Cook ranking second. Other key competitors are the Swiss Kuoni Group, the British Holidaybreak PLC and the tourism division of the German REWE Group.

The competitive environment in the TUI Hotels & Resorts market is characterised by a growing popularity for the all-inclusive concept and a continuing trend toward developing golf, spa, wellness and health products. Here the customer's sensitivity for environmental issues continues to play an important role. TUI Hotels & Resorts ensures high customer satisfaction through the development of source market specific projects to meet customers' demand.

### **Business model**

TUI Travel PLC offers its customers a large product portfolio, ranging from differentiated, in some cases exclusive, package tours to a portfolio of specialist products. It is structured into the Mainstream, Specialist, Activity and Online Destination Services Sectors, each offering different products. The main part of the business is the Mainstream Sector. This covers all package tour activities from distribution to tour operating and finally the airline. The sector is made up of several integrated tourism groups each with a focus on source markets. The customer is offered flexibility and choice through a wide variety of exclusive and differentiated products in all four sectors, sold via various distribution channels including the internet. A strong market position leads to economies of scale, which, for the most part, are exploited. At the same time, utilisation risks are minimised through specific marketing activities via 170 established brands and by implementing strict capacity management.

TUI Hotels & Resorts will continue to grow its own hotel capacity in existing and potential growth destinations, whilst at the same time streamlining its product range. Besides distribution via the tour operators, the focus on building and developing additional distribution channels will optimise utilisation of the Group's own hotels, not only in the low season, and secure high results.

### **Strategy**

In the wake of the market-related strengthening of the tourism division through the formation of the new TUI Travel PLC in 2007 and the structural change of the overall tourism market, the following key strategies have been defined:

- realisation of the identified sustainable integration and synergy benefits of GBP 150 million p. a. from the merger between TUI's tourism division and First Choice Holidays PLC.
- increase in the share of differentiated holiday products and further strengthening of direct sales through the internet.

- expansion and strengthening of the high-margin, specialist tour operating business.
- reviewing of the capital-intensive airline sector with regard to generate a business adequate and flexible fleet and financing structure.
- focussing on a differentiated hotel portfolio with high profits in the TUI Hotels & Resorts sector.

### Shipping

#### Market

Globalisation is reflected in the market development of container shipping. The increase in world trade, the ongoing shift of production from the west to the east but also the disproportionate economic growth in the eastern Asian emerging economies ensured high transport volumes, in particular on the routes to and from Asia. In addition, the containerisation of cargo continued to increase. Following a worldwide transport volume of 104 million TEU in 2006, this volume grew by 8% to more than 112 million TEU in 2007 (source: Global Insight, September 2007).

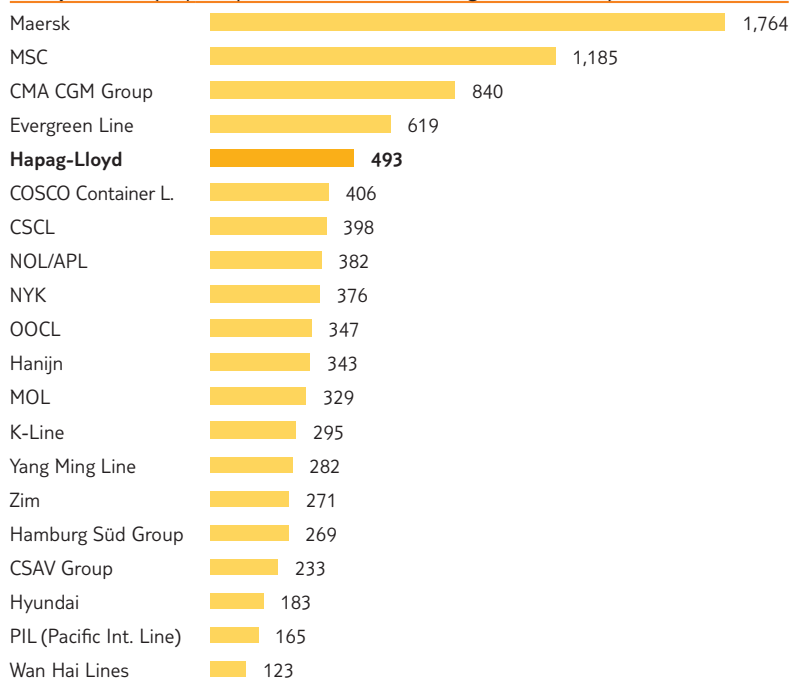
In the shipping sector the high level of the oil-price dependent bunker costs caused measures to reduce fuel consumption. As higher speeds of container ships cause a disproportionate consumption of bunker, journey speed has been reduced on several routes. In order to offer the same departure frequency, further container ships have to be brought into service.

Container shipping routes are broken down into trade lanes. The important trade lanes developed as follows in the year 2007: Intra-Asian transportation accounted for the largest portion transportation volume with around 24 million TEU in 2007, up around 7% year-on-year. The strongest growth of around 15% to nearly 20 million TEU was generated on the Europe/Far East routes. At around 19 million TEU and growth of 5%, the Trans-Pacific trade lane ranked next. Transport volumes in the Atlantic trade lane connecting Europe and North America totalled around 6 million TEU. The smallest trade lane is Latin America with around 4 million TEU. Several container shipping companies have joined to form international alliances. The purpose of these consortia is the joint use of transport capacity and the coordination of departure times. As a result, the alliance members are able to offer their customers a larger number of routes and higher frequencies. Hapag-Lloyd AG is a founding member of the Grand Alliance, the world's largest container shipping consortium, and provides around 35% of the jointly used capacity.

#### Competition

In 2007, concentration in container shipping continued with several minor acquisitions. At a transport capacity of almost 1.8 million TEU, the Danish shipping company Maersk remained the largest container shipping line, far ahead of the number two: the Swiss Mediterranean Shipping Co. (MSC) with a transport capacity of around 1.2 million TEU. With the French CMA CGM and the Taiwanese Evergreen Line ranking third and fourth, Hapag-Lloyd followed as the world's fifth largest container shipping line with a capacity of 0.5 million TEU.

**Competition** (Capacity in '000 TEU, excluding 'order book')



Source: Transmodal, January 2008/Own calculations

**Business model**

Hapag-Lloyd AG is a company operating worldwide with over 340 offices in more than 100 countries in five continents. Hapag-Lloyd's fleet provides 77 routes in all the world's seas, serving in particular the high-volume east-west routes which mainly comprise transport between North America, Europe and Asia. Coordination of the worldwide services is facilitated by the blueprint model, in combination with a fully integrated IT network. This embraces a standardisation of business processes and their documentation. With the support of the IT network, which links all global sites in real-time, optimum control of container flows both as far as cost and earnings is concerned, can be ensured. Moreover, these components help to determine and offer customized solutions tailored to individual customer requirements. At the same time, the IT network secures the collection of information for customers but also provides details required by the harbour and customs authorities.

Besides pure maritime container transportation, Hapag-Lloyd primarily offers the organisation of door-to-door transport worldwide. The transport chain starts with the shipment of the container to a maritime port by the consignor. The container is then shipped to the destination port, and the chain ends with delivery to the place of destination. Container transportation to or from the sea ports, by rail, truck or inland waterway vessel, in particular, is carried out by subcontractors. However, Hapag-Lloyd is the principal contracting partner during the entire transport chain and offers its customers additional services such as customs clearance.

**Strategy**

In the shipping division, the growth strategy launched in previous years will be continued. For the next few years, average capacity expansion of 8% p. a. is planned for the container ship fleet and supported by corres-

ponding investment programmes. The growth strategy is conducted by the following strategic approaches:

- selective capacity expansion by means of investment in large ship classes.
- realisation of further efficiency benefits through an uniform fleet structure.
- use of strategic options for external growth in the wake of ongoing market consolidation.
- flexible capacity control by means of a balanced fleet funding mix between ownership/long-term charter and short-term charter.

#### *General development*

### Economic framework

The world economy continued to grow, in particular in the first half of 2007. Following a slowdown in growth in the second half of the year, the International Monetary Fund (IMF) forecast international gross domestic product growth of 5.2% (IMF, World Economic Outlook, October 2007/January 2008). The main factor curbing growth was the sub-prime crisis in the US. The Asian emerging economies continued to grow disproportionately, while growth in the US, the Eurozone and Japan fell short of the worldwide average. The economic expansion in the emerging economies went hand in hand with a significant increase in production in the industrialised countries. World trade grew at a stable rate, with an IMF forecast of 6.6% for the overall year. It thus outperforms growth of the world economy.

#### *America and Asia*

### Development in the regions

While economic growth in the US still accounted for 2.3% in the first half of the year, it only stood at 1.9% for the year as a whole. This was due to the sub-prime crisis with its effects on the US real estate sector which drove demand by private households down. The low US dollar exchange rate adversely affected imports but at the same time boosted the export sector. Growth in Canada slightly exceeded the US growth rate in 2007. Japan was less strongly exposed to the finance crisis but nevertheless recorded a year-on-year slowdown in economic growth for various reasons including the weakness of the yen. Growth in the Asian emerging economies was substantially driven by China at 11.5% and India at 8.9%. In the first half of the year in particular, the Asian economy grew extraordinarily quickly. Regional growth amounted to 9.8% for the overall year, matching 2006 high levels.

#### *Eurozone*

Economic growth in the Eurozone totalled 2.5% in 2007, matching the level reported by the developed economies. In the second half of the year, growth slowed down due to the persistently high interest rate level and the repercussions of the US sub-prime crisis. In spite of the curbing effect of several overall factors, private consumption increased in the first half of the year, albeit less strongly than in 2006. This was due to the increase in the VAT rate in Germany, uncertainty surrounding the French parliamentary elections and the high oil price. In Germany, in particular, these factors – alongside price increases for certain foodstuffs – resulted in a high inflation rate which caused a slight decline in private consumption for the overall year. In the remaining Eurozone countries, in contrast, private consumption was stable for the year as a whole.

### Development of the divisions

#### Tourism

In 2007, tourism continued the growth achieved in previous years. According to the World Tourism Organization (UNWTO, World Tourism Barometer, October 2007, January 2008), international travel activities as measured by the worldwide arrivals grew by 6.1% year-on-year. 2007 thus marks the fourth consecutive year with an actual growth rate ahead of the long-term average rates forecast by the UNWTO. The developed regions in the Eurozone and America development was stable. The business travel market grew faster than the leisure travel market in these regions. Worldwide growth was driven by Asia, the Pacific area, Africa and the Middle East with growth rates of more than 7%. A similar picture is reflected in the source markets. While most countries of the Eurozone recorded stable growth rates, many of the emerging economies reported double-digit growth rates. The high worldwide economic growth had a strong positive impact. The continued turmoil in the capital markets did not affect the performance of tourism in 2007.

#### Shipping

Container shipping developed positive by worldwide, despite increases in bunker prices. Worldwide transport volumes rose by around 8% to more than 112 million TEU (Global Insight, September 2007), exceeding the forecast growth of world trade. As before, the driving force behind this positive development was Asia, and here in particular China. The containerisation rate rose slightly to 71%, up from around 70% in 2006. Freight rates had declined strongly but recovered significantly in the second half of 2007, with the high-volume Europe/Far East routes recording the strongest growth. However, increasing freight rates were also accompanied by further high bunker costs. On an annual average, bunker prices grew by around 15% year-on-year to temporarily more than 500 USD/tonne. The sector was also affected by infrastructure problems as in particular congestion in the harbours of Southampton and Rotterdam. In order to save fuel and reduce emissions, the speed of container ships on European/Far Eastern routes was reduced in 2007. At the same time, new container ships were commissioned in order to keep transport frequencies stable. The Grand Alliance agreement was extended by a further ten years in 2007.

#### Assessment of the economic framework

Overall, economic development in the 2007 financial year largely matched the Executive Board's expectations and thus the macroeconomic framework underlying the budgeting assumptions. Both core businesses developed more restrained than expected in the first half of the year while the business environment increased significantly in the second half of the year. Both core business areas were adversely affected by the increasing high average annual aircraft fuel and bunker costs. Shipping suffered from a weak US dollar against the Euro. In tourism, consumer demand picked up substantially, in particular in the second half of the year, due to the recovery observed in the European economic area. In shipping, the overall market recovered substantially year-on-year in the wake of the overall stable growth of the world economy.