

Report on Expected Developments **Action programme in tourism is being implemented. Shipping benefiting from synergies.**

Economic environment

General development

Macroeconomic situation

Economists expect the global economic growth of previous years to continue at a similar rate over the next few years. However, the International Monetary Fund (IMF, World Economic Outlook, October 2007) expects a slight slowdown in the growth rate, in line with expectations for 2007. According to its forecast, worldwide GDP will grow by 4.8% in 2008. Growth will thus slow, primarily due to the sub-prime crisis in the US and the increase in oil prices and inflation trends, as in 2007. The IMF expects the sub-prime crisis in particular to also trigger larger uncertainty in the international financial markets. Concerning oil prices, the IMF currently forecasts an increase of 9.5% in 2008. As in 2007, world trade will outperform the world economy at growth of 6.7%. For the period 2009 to 2012, experts expect the world economy to grow on average by 5.1% annually, whereas world trade is expected to grow by 7.2%.

Development of the regions

An analysis of the development for the individual economic regions shows that all regions record stable, in some cases slightly slower, growth rates. For the US, the IMF forecasts GDP to grow by 1.9% in 2008, matching the expected growth rate for 2007. Overall, demand in the US is expected to decline due to stricter lending practices, in particular in the property market and related sectors. Growth in the eurozone is expected to be at 2.1% in 2008, slightly down on the forecast for 2007. Besides the volatility of oil prices and a slowdown in growth in the US, the main growth risks will include stricter lending practices by the banks. Asia is also expected to show a slowdown in economic growth, with Japan for instance showing moderate economic growth with a reduction in the rate forecast to 1.7%. The emerging Asian economies, in contrast, continue to show above-average growth of 8.8%. China will lead growth rates at 10.0%, followed by India with an estimated growth rate of 8.4% in 2008. However, growth in these countries may be curbed due to a decline in demand in Europe or America caused by the uncertainty in the financial markets.

Expected development of gross domestic product

Variation in %	2007	2008
World	5.2	4.8
Eurozone	2.5	2.1
Germany	2.4	2.0
UK	3.1	2.3
France	1.9	2.0
US	1.9	1.9
Japan	2.0	1.7
China	11.5	10.0
India	8.9	8.4
Emerging eastern Asian economies	9.8	8.8

Source: International Monetary Fund, World Economic Outlook, October 2007

Market trend in the divisions

Tourism

As in previous years, the World Tourism Organization (UNWTO, World Tourism Barometer, January 2008) expects the international travel market to gather momentum and record growth of around 6% in 2007. Due to strong economic uncertainty and the slowdown in economic parameters, the growth rate is expected to be between 3% and 4% in 2008. These framework parameters include the US dollar exchange rate and the high crude oil prices. At 1% to 3%, North and South America are expected to show the lowest growth rate. This is due to the economic situation in North America, the source market accounting for around two thirds of tours to this region. On the other hand, the travel market in the eurozone is expected to generate growth of 3% to 4%, matching worldwide average levels and benefiting in particular from sound exchange rates for the euro. The strongest growth rates of 6% to 10% are expected for the Asia and Pacific regions, the Middle East and Africa.

Shipping

According to a forecast by Global Insight, transport volumes in container shipping will grow by 7.3% to around 120 million standard containers (TEU). This will partly be attributable to the steady growth in world trade, estimated as 6.7% in 2008 by the International Monetary Fund (IMF). This positive trend, driven above all by the Asian economies, contrasts with stronger cost pressure. For 2008, bunker and fuel costs are currently expected to continue to rise.

Development of results of operations

Business trend

Tourism

In the 2007 financial year, TUI's tourism division again recorded an increase in customer volumes. Adjusted for the first-time prorated consolidation of First Choice, the increase was primarily generated in the German market and related to sales of tours by tour operators but also travel components, in particular the seat-only business. For the next few years, the main growth stimuli for the tour operator business are expected to be recorded in the long-haul segment. Package beach holidays in destinations around the Mediterranean, however, will stabilize at a high level. While holiday-makers expect increasingly individualized product portfolios to meet their needs and demand for special products and niche products continues to rise, standard products will continue to experience strong price pressure. TUI will therefore place its strategic focus in 2008 on a flexible capacity

policy and the design of unique holiday experiences and differentiated products for customers. TUI aims to achieve this goal by means of high product quality and the creation of individual holidays. To this end, exclusive hotel offerings will be expanded in all markets. From TUI's perspective, these are key criteria for success that will significantly increase the value of the Mainstream business and create moderate growth. The Specialist Sector, which includes premium and modular products, will also be further expanded.

Turnover

Turnover is expected to grow from around € 16 billion in the 2007 financial year to € 19 billion in the 2008 financial year. This increase will primarily result from the first-time full financial year consolidation of the First Choice activities, while the primary turnover growth will be moderate, in line with the planned capacity and quality strategy.

Earnings

For 2008, earnings are expected to rise, both in TUI Travel PLC and TUI Hotels & Resorts. The main drivers behind the earnings growth in TUI Travel PLC are the expected synergies from the merger between TUI and First Choice, margin improvements resulting from the capacity and product measures initiated in the Mainstream Sector and further growth in the Specialist Holidays Sector, Activity Holidays Sector and Online Destination Services. TUI Hotels & Resorts is planning to achieve a further increase in the number of bednights, driven by the expected positive development in the long-haul segment and the eastern Mediterranean. Moreover, third-party business is to be expanded substantially. Average revenues per bed are to rise slightly.

Based on the earnings target for TUI's former tourism entities and taking account of the expected future profit contributions by First Choice and first synergy properties, a margin risk resulting from an intensification of competition and an increase in fuel prices, TUI expects a significant increase of earnings for the tourism division.

Shipping

Business trend

Overall, the container transport business is expected to continue to recover. The sector is expected to achieve growth of around 7% and thus again outperform world trade. This will primarily be attributable to the positive development of the Chinese export market, the crucial factor for Far East and Trans-Pacific transportation. In addition, freight rates are expected to rise in all trade lanes. Following the completion of the integration of CP Ships, Hapag-Lloyd will outperform the market and record an above-average increase in transport volumes. The risks emerging in this context are related to the effect of the sub-prime crisis on the development of world trade, which cannot yet be fully assessed. On the other hand, the development of bunker costs for ships also will be key. Bunker costs were characterised by steady increases in recent years.

Turnover

Against the background of the expected development of transport volumes and the increase in average freight rates, the shipping division is expected to post an increase in turnover to around € 7 billion in 2008, up from € 6.2 billion in the 2007 financial year – depending on the development of the US dollar exchange rate against the Euro.

Earnings

In leveraging the full synergy potential of € 220 million from the integration of CP Ships in 2008 TUI expects significantly advanced earnings even in face of a moderate volume growth and a slight recovery of freight rates levels in 2008.

TUI Group

Based on the expected increase in turnover in tourism and shipping consolidated turnover is expected to rise. It will increase from nearly € 22 billion in 2006 to around € 26 billion.

TUI AG

Against the background of the forecast development of business and earnings of the TUI Group, TUI AG, the Group's holding company, is expected to receive sufficient inflows of earnings from its investments to be able to pay a dividend again for 2008.

Financing

Development of the financial situation

The Group's net debt totalled € 3.9 billion at the balance sheet date. Based on the expected increase in the Group's profitability and the planned investment programmes in tourism and shipping, net debt is expected to decline in 2008.

Investments

Due to the investment decisions already taken and planned projects, TUI expects a financial requirement of around € 1 billion for the 2008 financial year. These funds will largely be used as investments in property, plant and equipment. Around 60% of the planned total investments concern tourism. Around two thirds of the investments in tourism will be used for TUI Travel PLC, with the remaining third planned to be invested in the further expansion of the hotel sector. In shipping, the expansion of the container ship fleet will require the largest portion of the financial requirement. Shipping will account for around 40% of the Group's planned total investments. Other projects or acquisitions will only be considered and implemented if attractive opportunities arise or if this is required in the light of the business development.

Expected overall development

Overall, the Group's profitability is expected to rise in the 2008 financial year due to the realisation of the planned synergies in the wake of the merger of the TUI Group's tourism entities and First Choice as well as the expected recovery in freight rates and a further improvement in the productivity level in shipping. The development of earnings can be influenced in a negative way by the potential effect of the current sub-prime crisis on the operative business.