

Risk Report **Seizing opportunities and limiting risks. Proven control systems alongside early risk identification.**

The TUI Group operates worldwide in its two core businesses, tourism and shipping. Due to the nature of these activities, they are exposed to various risks, depending on the type of business. These risks may arise from the Group's own entrepreneurial action or external factors. In order to identify and actively control these risks, the Group has introduced Group-wide risk management systems.

Risk policy

TUI's risk policy is aimed at continually and sustainably enhancing the Group's corporate value, achieving its medium-term financial goals and securing the Company's ongoing existence in the long term. It is thus an integral element of the Group's corporate policies.

In both core businesses, the TUI Group's subsidiaries operate in markets that showed above-average growth in recent years and will continue to grow in future. TUI is the European market leader in the tourism business in terms of turnover, above all due to its interest in TUI Travel PLC. The Group's shipping division is one of the world's five largest container shipping lines in terms of capacity. In order to be able to seize the market opportunities and leverage their potential for success, risks must be borne to an appropriate extent. The aim and object of the risk management system is to identify any risks early, assess them and limit them to such an extent that the economic benefit outweighs the risks.

Risk management

In order to meet its overall responsibility within the Group, TUI AG's Executive Board has set out policies incorporating the essential elements of the risk management system. They are applicable to all Group companies. The Board has also installed monitoring and controlling systems to regularly measure, assess and control the development of business and the related risks. Responsibility for the early identification, reporting and handling of business risks lies with the management of the respective companies, with the control functions resting with the relevant higher management level.

The Executive Board and the executive management employ multi-stage integrated reporting systems for risk management purposes. On the basis of the planning and control system, deviations of actual from projected business developments are analysed on a monthly basis so that risks that might jeopardize the Company's performance are quickly recognised.

In addition, special independently organised reporting systems have been introduced for the early identification of risks threatening the existence of the Company. Reporting of such risks is based on a separate system,

organised on its own alongside operational risk management. The aim of early risk identification is to provide reports, both on a regular and case-by-case basis, in order to identify potential risks within the Group companies, assess these risks on the basis of uniform parameters and summarise them in an overall Group-wide system. The risk management measures to be taken are implemented within the operative entities and mapped and supported by means of operative systems. Nevertheless, early risk identification (German Act on Control and Transparency, KonTraG) is interrelated with operational risk management.

The Supervisory Board is involved in this process by means of regular quarterly reports by the Executive Board and, where necessary, ad hoc reports at its regular meetings.

Risk management is supported by the Group-wide auditing departments, which examine transactions and operational workflows both regularly and on a case-by-case basis, checking that they function properly and are safe and efficient.

The methods and systems used in risk management and the frequency of controls are tailored to the respective types of risks and are continually checked, modified and adjusted to the changing business environments. The systems for early identification of risks threatening the Group's existence were audited by our auditors as part of the scope of the audit of the annual financial statements for 2007.

The regular risk reporting system did not identify any specific risks threatening the continued existence of individual Group companies or the entire Group, neither during the 2007 financial year nor at year-end.

Risk transfer

Risk management also encompasses the transfer of risks to third parties. Potential damages and liability risks from day-to-day business operations were covered as far as possible by insurance policies. The Group has concluded, inter alia, liability and property insurance policies customary in the industry, and insurance policies for its airlines and maritime operations. The extent of the insurance cover is regularly reviewed and adjusted where necessary.

Risks related to the future development

Environment and industry risks

The TUI Group's activities in the tourism and shipping divisions are exposed to macroeconomic and industry-specific risks. A detailed assessment of the overall economic development in the medium term is provided under 'Prospects'. Specific risks may arise in both divisions from the development of commodity prices, in particular oil products, as well as currency relations and interest rates. These developments may, inter alia, result in situations in which economic growth in countries of importance to the TUI Group's business may be weaker than expected. This may have an adverse effect on demand for services in both divisions and entail cost increases in the procurement of purchased materials and services or necessary products.

Risks from acquisitions and divestments

In the 2007 financial year, the TUI Group's tourism division, excluding the hotel companies, was merged with First Choice to form the new company TUI Travel PLC. Significant synergies were identified in this context. In order to leverage the synergy potential, corresponding measures and process steps were launched with a view to deriving a proper assessment of the future performance potential. There is nevertheless a risk of the actual synergy effects proving to be lower than expected.

The acquisitions relating to the realignment of the TUI Group have created goodwill. Should cash flows fall below the expected levels due to a sustained business downturn, impairments (e.g. amortisation of goodwill) might be required and would thus impact Group earnings.

Risks from information technology

Business processes in tourism and shipping strongly depend on the installed IT systems. In tourism, for instance, booking systems, capacity and yield management and all administrative areas are based on IT operations. Moreover, the internet is growing in importance, not only as a distribution channel but also as basic technology for the automation of business processes between business partners. IT systems are also used in the shipping division for the booking and implementation of transport services as well as capacity and yield control.

IT governance in the TUI Group is guaranteed by means of a Group-wide IT management body covering all business segments. It is supported by an expert team consisting of IT directors.

The IT systems used to secure business processes are continually reviewed and further developed. This also applies to existing measures to ensure data safety, e.g. by means of the increasing introduction of hard disk encryption in mobile terminals in order to control system access and limit non-availability risks. The safety measures also include the use of data encryption mechanisms for e-mails involving sensitive data, the Group-wide implementation of firewalls, virus scanners and the complete mirroring of all application-critical systems, websites and infrastructure components in two physically separate computer centres.

Business risks in tourism

In the tourism division, customers' booking behaviour is essentially affected by the general economic framework and social factors. Political events, natural disasters, epidemics or terrorist attacks may affect holidaymakers' decisions and thus the development of business in individual markets. Market risks increase with fiercer competition and the emergence of new market participants operating new business models, such as web-based distribution of travel services or low-cost airlines which may adversely impact sales by travel agencies.

A substantial business risk in tourism relates to the seasonal planning of flight and hotel capacity. In order to plan ahead, tour operators must forecast demand and anticipate trends in holiday types and destinations.

TUI's business model underlying its operations in TUI Travel PLC and TUI Hotels & Resorts is well suited to countering the ensuing occupancy risks:

- The Group's own airline and hotel capacity is considerably lower than the number of customers handled by its tour operators. This enables the Group to keep its product portfolio flexible by sourcing third-party flight capacity and hotel beds and concluding corresponding contractual agreements.
- The Group's presence in all major European countries allows it to limit the impact of regional fluctuations in demand on capacity utilisation in the destinations.
- Additional opportunities are offered by multi-channel distribution and direct and modular marketing of capacity via the internet.

Business risks in shipping

The major risks concerning the development of business in container shipping arise from external factors. If world trade and investment cycles in the shipping sector develop adversely trend, this may result in shipping capacity overhangs and thus adversely affect marine freight rates. In the individual trade lanes, cyclical fluctuations in regional economic activity may create imbalances in transport volumes. This risk typical of the industry is countered by means of an efficient capacity control system. Other essential factors limiting business risks are:

- activities in the East-West routes, i.e. trade lanes which are attractive in the long-term,
- membership of the Grand Alliance, one of the world's leading liner shipping consortia.

Financial risks

The TUI Group operates a central finance management system that performs all essential transactions with the financial markets.

In the wake of the merger of TUI's tourism activities with First Choice to form TUI Travel PLC, a division of labour was introduced for the central cash management and the central financial risk management system, previously managed exclusively by TUI AG. TUI Travel PLC now performs these functions for the tourism sector, in line with the Group's unchanged risk policy, while TUI AG will continue to hold this functions for all other business operations of the Group.

The individual financing categories, rules, competences and workflows as well as the limits for transactions and risk items are defined by policies. The trading, settlement and controlling functions are segregated in functional and organisational terms. Compliance with the policies and limits is constantly monitored. As a matter of principle, all hedges entered into by the Group must be supported by underlying recognised or future transactions. Recognised standard software is used for evaluating, monitoring and reporting on the hedges entered into.

Financial instruments

In the TUI Group, financial risks mainly arise from payment transactions in foreign currencies, the need for fuel (aircraft fuel and bunker oil) as well as financing via the money and capital markets. In order to limit risks arising on changes in exchange rates, market prices and interest rates for the underlying transactions, TUI uses derivative financial instruments not traded on stock markets. These are primarily fixed-price transactions (e.g. forward transactions and swaps) and, to a lesser extent, options. These transactions are concluded at arm's length with first-rate companies operating in the financial sector. Currency translation risks from the consolidation of Group companies not reporting in euros are not hedged.

Detailed information about hedging strategies, risk management and the scope of financial transactions at the balance sheet date is provided in the section on 'Financial instruments' in the notes on the consolidated financial statements.

Liquidity management

In the course of the annual Group planning process, TUI prepares a multi-annual finance budget. In addition, TUI produces a monthly rolling liquidity plan covering a period of one year. The liquidity plan covers all controlled financing categories of the Group.

Both money and capital market instruments as well as bilateral bank loans and syndicated credit facilities are used to meet the Group's financing requirements. At the balance sheet date, TUI AG had a syndicated credit facility of € 1.0 billion. This syndicated credit facility was not used at the balance sheet date. TUI terminated this syndicated credit facility in January 2008 in the wake of a financing transaction worth € 0.5 billion. These financing measures have also led to the elimination of the restrictions from TUI AG's senior notes of € 2.0 billion for TUI Travel PLC. TUI Travel PLC thus has separate access to banks and the capital market and is able to autonomously engage in liquidity provisioning for its tourism companies. Liquid funds and unused bank facilities ensure that TUI always has an appropriate cash reserve.

In order to meet its long-term financing requirements, TUI had issued a total of € 3.4 billion in the capital market as at the balance sheet date, comprising a total of seven bonds including a bond shown as hybrid capital. The bonds had different structures and maturities. Future repayment or refinancing risks were limited by means of an optimisation of the maturities and volumes of these bonds.

In August 2007, TUI Travel PLC was granted a syndicated credit facility of GBP 0.8 billion by a banking consortium. This facility will mature on 30 June 2012. As at the balance sheet date, GBP 0.6 billion were used.

In order to meet the regulatory requirements (in particular by the Civil Aviation Authority) placed on TUI Travel PLC as a tour operator in the UK, Ireland and Scandinavia, TUI Travel PLC concluded a syndicated bank facility (bonding facility in the form of credits by way of bank guarantees) of GBP 0.4 billion. The bonding facility will mature on 31 March 2008 and

may be extended until 31 March 2009. As at the balance sheet date, GBP 0.4 billion were used under this facility.

TUI AG's financial liabilities taken up via the capital market, TUI Travel PLC's syndicated credit facility and TUI Travel PLC's syndicated bonding facility comprise a number of obligations. Concerning for example TUI Travel PLC's syndicated credit facility and syndicated bonding facility, the obligations comprise of the duty to comply with financial covenants covering (a) compliance with an EBITDAR-to-net interest expense ratio measuring the 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 the Group's relative charge from financial liabilities. The covenants also restrict TUI Travel PLC's scope for encumbering or selling assets, acquiring other companies or shareholdings and effecting mergers. The capital market instruments as well as the syndicated credit facility and bonding facility comprise 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 capital market instruments. TUI's and TUI Travel PLC's business transactions and the expected business development are continually checked for compliance with the contractual provisions.

More detailed information on financing and financial debt is provided in the section 'Financial situation' in the management report and under 'Liabilities' in the notes on the consolidated financial statements.

Risks from pension obligations

Pension funds have been set up to fund pension obligations, in particular in the UK. These funds are managed by independent fund managers who invest part of the fund assets in securities. The performance of these funds may thus be adversely affected and impaired by the development of the financial markets.

The TUI Group's fully or partly funded pension obligations totalled € 1.8 billion, while the fair value of external plan assets amounted to € 1.5 billion. At the balance sheet date, the funded pension obligations thus exceeded plan assets by € 0.3 billion. Combined with the fair value of pension obligations not covered by funds of € 0.5 billion, this resulted in a net fair value of pension obligations of € 0.8 billion, fully covered by pension provisions. More detailed information on the development of pension obligations is provided under the item 'Provisions for pensions and similar obligations' in the notes on the consolidated financial statements.

Other financial liabilities

At the balance sheet date, the TUI Group had other financial liabilities of € 4.1 billion (previous year: € 3.9 billion). These liabilities mainly related to order commitments for investments. Around 18% of the total amount had a remaining term of up to one year.

At the balance sheet date, financial liabilities from operating lease, rental and charter agreements amounted to € 5.3 billion (previous year: € 4.5 billion). At € 2.3 billion, ships and containers accounted for the largest

proportion of financial liabilities from operating lease, rental and charter agreements, with € 1.1 billion relating to aircraft, € 0.6 billion to hotels and € 1.3 billion to other buildings and Other. Around 21% of the total amount had a remaining term of up to one year.

Detailed information on other financial liabilities is provided in the corresponding section in the notes on the consolidated financial statements.

Environmental risks

The TUI Group's current Group companies as well as companies already divested are or were involved in the use, processing, extraction, storage or transport of materials classified as damaging to the environment or human health. TUI takes preventive measures to counter environmental risks arising from current business transactions and has taken out insurance policies for certain environmental risks. Where environmental risks from divestment actions have not passed to the acquirers, TUI has created appropriate provisions in the balance sheet in order to cover potential claims.

Contingent liabilities and litigation

Contingent liabilities are potential liabilities not recognised in the balance sheet. At the balance sheet date, they amounted to € 71 million (previous year: € 214 million). The decrease was mainly resulted by the reduction in guarantees and warranties to settle ongoing transactions from former plant engineering and shipbuilding activities.

Neither TUI AG nor any of its subsidiaries are involved in pending or foreseeable court or arbitration proceedings which might have a significant impact on the Group's business position. This also applies to actions claiming warranty, repayment or any other remuneration brought forward in connection with the divestment of subsidiaries implemented over the last few years. As in previous years, the respective Group companies formed appropriate provisions to cover any potential financial charges from court or arbitration proceedings.

Information on contingent liabilities and litigation is also provided in the corresponding sections in the notes on the consolidated financial statements.