

# Group Turnover and Earnings

Overall, 2007 was a positive year for the TUI Group. Operating earnings by tourism and shipping, the Group's two divisions, rose year-on-year, with substantial growth in both sectors. The overall positive business development was driven by the strong performance in the second half of 2007, in particular in tourism but also in shipping.

Earnings in tourism were impacted by one-off effects concerning restructuring programmes and integration costs incurred in connection with the completed merger between TUI's tourism entities and First Choice. In order to guarantee a transparent presentation of the development of operating earnings by the divisions, a reconciliation to underlying earnings (underlying EBITA by division) is presented below, as in 2006.

The reporting methods applied in 2007 differed from those for the 2006 financial year. As for the first-time in the interim report for the third quarter of 2007 the reconciliation to underlying earnings included expenses for purchase price allocations relating to acquisitions. The additional adjustment for the effects mentioned above is the consequence of the harmonisation of operating earnings shown following the merger between First Choice and the TUI Group's tourism division. In order to ensure year-on-year comparability, underlying earnings were restated accordingly. Earnings were restated to a small extent year-on-year due to the first-time implementation of the regulations of IAS 23 ('Borrowing Costs').

## Turnover and earnings by divisions

### *Assessment of the earnings*

Underlying earnings by the tourism division rose year-on-year in both sectors, TUI Travel PLC and TUI Hotels & Resorts. The overall positive development of TUI Travel PLC earnings was mainly driven by the TUI Group's tourism entities transferred to the new company. This was as First Choice was only consolidated for the period from September to December 2007, a period where due to the nature of the business an immaterial profit is generated.

The main reasons for the year-on-year growth in earnings were the substantial recovery in the French travel market and the course of the year and in the realisation of cost reduction potentials of the restructuring programmes carried out in previous years, in particular in the British business sector.

In 2007, the shipping division also managed to leverage some synergy potential from the completed integration of CP Ships, the container line acquired in 2005. Moreover, in the second half of the year 2007, freight rates rose from their low level at the middle of the year 2007 and showed

steady growth over the months. The recovery in price levels in the course of the year went hand in hand with stable growth. The ongoing weakness of the US dollar against the euro and the continuing high level of bunker costs had an adverse effect on earnings. Overall, however, underlying earnings rose substantially year-on-year.

The development of the performance of the divisions year-on-year shows a significant increase in the profitability of the core businesses.

Overall, earnings by tourism was slightly over the Executive Board's expectations. The earnings level posted by shipping fell short of expectations, in particular due to the weakness of the US dollar and average freight rate which fell under 2006 level, but developed significant positively at the end of the year.

**Continuing operations**

**Development of turnover by divisions**

Turnover by continuing operations comprised the tourism and shipping divisions and central operations.

**Turnover by divisions**

€ million	2007	2006	Var. %
<b>Tourism</b>	<b>15,638.5</b>	<b>14,085.1</b>	<b>+ 11.0</b>
TUI Travel PLC	15,258.7	13,676.0	+ 11.6
TUI Hotels & Resorts	379.8	346.7	+ 9.5
Others/Consolidation	0.0	62.4	n. m.
<b>Shipping</b>	<b>6,201.6</b>	<b>6,254.0</b>	<b>- 0.8</b>
Container shipping	6,018.4	6,093.7	- 1.2
Cruises	183.2	160.3	+ 14.3
<b>Central operations</b>	<b>25.5</b>	<b>175.5</b>	<b>- 85.5</b>
<b>Continuing operations</b>	<b>21,865.6</b>	<b>20,514.6</b>	<b>+ 6.6</b>
<b>Discontinuing operations</b>	<b>0.0</b>	<b>401.0</b>	<b>n. m.</b>
<b>Turnover by divisions</b>	<b>21,865.6</b>	<b>20,915.6</b>	<b>+ 4.5</b>

At € 15.6 billion, turnover by tourism grew by 11.0% year-on-year. Both TUI Travel PLC and the TUI Hotels & Resorts sector increased their turnover year-on-year. Turnover by TUI Travel PLC included a merger-induced increase of € 1,342.5 million due to the first-time consolidation of the First Choice activities as of September 2007. Adjusted for the turnover of First Choice and the turnover of the divested business travel operations still included in 2006, underlying turnover for the tourism division grew by 1.9%.

In shipping, turnover declined slightly by 0.8% to € 6.2 billion despite a continued rise in transport volumes. The main reason for the slight decline in turnover year-on-year was the relative weakness of the US dollar compared with 2006 and the slight year-on-year decline in average freight rates for the year.

Turnover by central operations fell considerably year-on-year by 85.5% to € 26 million. This was primarily due to the divestment of the majority interest in Wolf GmbH, a heating and air conditioning company, in October 2006 and the resulting impact on turnover.

**Discontinuing operations**

In the completed 2007 financial year, the TUI Group no longer included any discontinuing operations. In 2006, turnover of € 401 million had been generated in the trading sector.

### Turnover by divisions

At € 21.9 billion, total turnover by the TUI Group's divisions climbed by 4.5% year-on-year. Due to the increase in turnover caused by the inclusion of TUI Travel PLC in consolidation, the tourism division accounted for a higher proportion of turnover by the divisions at 71.5% (previous year: 67.3%). Shipping recorded a slight decline in its turnover portion to 28.4% (previous year: 29.9%), mainly due to the weakness of the US dollar. Since the Group recorded a drop in turnover by central operations due to the divestments, the corresponding turnover portion declined to 0.1% (previous year: 0.8%).

### Development of earnings by divisions

#### Earnings by divisions (EBITA)

€ million	Underlying EBITA by division			EBITA by division		
	2007	2006	Var. %	2007	2006	Var. %
Tourism	448.9	394.7	+ 13.7	210.5	387.9	- 45.7
TUI Travel PLC	304.4	258.6	+ 17.7	103.3	150.6	- 31.4
TUI Hotels & Resorts	146.1	123.2	+ 18.6	108.8	86.6	+ 25.6
Others/Consolidation	- 1.6	12.9	n. m.	- 1.6	150.7	n. m.
Shipping	196.7	89.2	+ 120.5	341.9	- 106.4	n. m.
Container shipping	182.5	81.3	+ 124.5	327.7	- 114.3	n. m.
Cruises	14.2	7.9	+ 79.7	14.2	7.9	+ 79.7
Central operations	- 29.5	- 65.4	+ 54.9	- 4.2	- 80.7	+ 94.8
<b>Continuing operations</b>	<b>616.1</b>	<b>418.5</b>	<b>+ 47.2</b>	<b>548.2</b>	<b>200.8</b>	<b>+ 173.0</b>
<b>Discontinuing operations</b>	<b>0.0</b>	<b>29.8</b>	<b>n. m.</b>	<b>0.0</b>	<b>29.6</b>	<b>n. m.</b>
<b>Earnings by divisions</b>	<b>616.1</b>	<b>448.3</b>	<b>+ 37.4</b>	<b>548.2</b>	<b>230.4</b>	<b>+ 137.9</b>

### Continuing operations

Earnings by the continuing operations before adjustment for one-off effects (EBITA) grew by 173.0% to € 548 million in the 2007 financial year. Earnings were impacted in particular by restructuring and integration expenses relating to the merger between First Choice and the TUI Group's tourism division. On the other hand, earnings benefited from one-off income from divestments in the shipping division.

Adjusted for the one-off effects included in earnings for the 2007 financial year, underlying operating earnings rose by 47.2% to € 616 million year-on-year.

#### Underlying EBITA by division: Tourism

€ million	2007	2006	Var. %
<b>EBITA by division</b>	<b>210.5</b>	<b>387.9</b>	<b>- 45.7</b>
Gains on disposals	+ 6.8	- 153.3	
Restructuring	+ 62.4	+ 100.6	
Purchase price allocation	+ 48.8	-	
Other one-off items	+ 120.4	+ 59.5	
<b>Underlying EBITA by division</b>	<b>448.9</b>	<b>394.7</b>	<b>+ 13.7</b>

At € 211 million, earnings by the tourism division fell by 45.7% year-on-year. The decline in earnings was mainly attributable to one-off income from the divestment of the business travel activities and the Dutch specialist tour operators in 2006 earnings. In addition, earnings included one-off expenses for business restructuring programmes and other one-off items, in particular concerning integration-related transactions, of

€ 183 million. At € 97 million, a large portion of these expenses were incurred in connection with the merger of First Choice with the TUI Group's tourism entities. A further adverse effect was caused by the current amortisations of the purchase price allocation of First Choice of € 49 million. Taking account of the above-mentioned one-off effects, underlying earnings for the 2007 financial year climbed by 13.7% to € 449 million.

Underlying earnings rose both in the new TUI Travel PLC but also in TUI Hotels & Resorts. One of the main reasons for the year-on-year rise in operating earnings was the substantial recovery in the French travel market in the course of the year and the efficiency increases from restructuring programmes implemented in previous years, in particular in the British business sector.

#### Underlying EBITA by division: Shipping

€ million	2007	2006	Var. %
<b>EBITA by division</b>	<b>341.9</b>	<b>- 106.4</b>	<b>n. m.</b>
<i>Gains on disposals</i>	- 200.5	-	
<i>Restructuring</i>	- 1.1	+ 66.4	
<i>Purchase price allocation</i>	+ 82.4	+ 81.8	
<i>Other one-off items</i>	- 26.0	+ 47.4	
<b>Underlying EBITA by division</b>	<b>196.7</b>	<b>89.2</b>	<b>+ 120.5</b>

At € 342 million, an increase of € 448 million, earnings by shipping rose substantially year-on-year. In the 2007 financial year, earnings comprised one-off income from the divestment of Montreal Gateway Terminals and the stake in Germanischer Lloyd of € 201 million. Additional one-off income of € 32 million arose from the revaluation of a risk position formed as at the acquisition date as part of the acquisition of CP Ships. Offset to an extent by a small amount of subsequent expenses incurred for the integration of CP Ships. On balance, an extraordinary income of € 26 million from other one-off items was accounted for.

Adjusted for the one-off effects, operating earnings by shipping grew substantially by 120.5% to € 197 million.

#### Underlying EBITA by division: Central operations

€ million	2007	2006	Var. %
Earnings by the holdings	- 16.6	- 175.7	90.6
Other operating areas	12.4	95.0	- 86.9
<b>EBITA by division</b>	<b>- 4.2</b>	<b>- 80.7</b>	<b>+ 94.8</b>
<i>Gains on disposals</i>	-	- 34.7	
<i>Restructuring</i>	+ 6.7	-	
<i>Purchase price allocation</i>	-	-	
<i>Other one-off items</i>	- 32.0	+ 65.0	
<i>Revaluation of conversion rights</i>	-	- 15.0	
<b>Underlying EBITA by division</b>	<b>- 29.5</b>	<b>- 65.4</b>	<b>+ 54.9</b>

Earnings by central operations comprised the corporate centre functions of TUI AG and the interim holdings as well as other operating areas, mainly including the Group's real estate companies.

Earnings by central operations increased by € 77 million to € - 4 million year-on-year. In the 2007 financial year, one-off expenses of € 7 million were accounted for. These expenses had been incurred due to the restructuring of TUI AG's corporate centre concerning the tourism functions performed. Against this, one-off income was generated from the reversals of provisions for clean-up operations and for a litigation of a total of € 32 million. On a like-for-like basis, underlying earnings by central operations rose by € 36 million to € - 30 million year-on-year due to a reduction in the personnel cost base of the corporate centre as a consequence of the transfer of central tourism functions to TUI Travel PLC and a positive result from the valuation of financing instruments for cash flow hedges.

Earnings by other operating areas declined in the completed financial year due to the divestment of Wolf GmbH, the last remaining industrial activity, in 2006. Earnings in 2006 had also included income from a divestment in the real estate sector (Schacht Konrad).

#### *Discontinuing operations*

In the 2007 financial year, the TUI Group no longer held any discontinuing operations. Earnings in 2006 had included earnings by discontinuing operations of € 30 million of the trading sector.

#### **Underlying EBITA by division: Group**

€ million	2007	2006	Var. %
<b>EBITA by division</b>	<b>548.2</b>	<b>230.4</b>	<b>+ 137.9</b>
<i>Gains on disposals</i>	- 193.7	- 187.8	
<i>Restructuring</i>	+ 68.0	+ 167.0	
<i>Purchase price allocation</i>	+ 131.2	+ 81.8	
<i>Other one-off items</i>	+ 62.4	+ 171.9	
<i>Revaluation of conversion rights</i>	-	- 15.0	
<b>Underlying EBITA by division</b>	<b>616.1</b>	<b>448.3</b>	<b>+ 37.4</b>

#### *Earnings by divisions*

Overall, the TUI Group reported in the financial year 2007, earnings by divisions before adjustment of one-off effects of € 548 million, up 137.9% year-on-year. Taking account of the one-off income and expenses outlined above, underlying earnings by divisions grew by 37.4% to € 616 million.

### Value-oriented Group management

The financial objective pursued by TUI AG as a capital market-oriented company is to secure a sustainable increase in the value of the TUI Group. In order to implement value-driven management of the Group as a whole and its individual business sectors, a standardised management system has been installed, forming an integral part of uniform Group-wide controlling and planning processes.

Key management variables to enable regular value analysis are ROIC (Return On Invested Capital) and absolute value added. ROIC is compared with the division-specific cost of capital.

#### *Cost of capital*

The cost of capital is calculated as the weighted average cost of capital (WACC). The cost of equity included in WACC reflects the return expected by investors investing in TUI shares. The cost of outside capital is based on the average financing costs of the TUI Group. Generally, the cost of

capital always shows pre-tax costs, i.e. costs before corporate and investor taxes. As such the expected return corresponds to the same tax level as underlying earnings included in ROIC.

In order to account for the different return/risk profiles of the Group's sectors, corresponding division-specific pre-tax costs of capital are calculated. For the tourism division, the cost of capital was 10.3% (previous year: 8.8%). As a result of restructuring in the tourism division in 2007, the division-specific cost of capital was broken down into the two sectors TUI Travel PLC and TUI Hotels & Resorts. The cost of capital was 10.6% for the new TUI Travel PLC sector in the year 2007 and 10.0% for the TUI Hotels & Resorts sector in the reporting year. In the shipping division, the cost of capital was 9.6% (previous year: 7.9%), and for the Group as a whole, the variable stood at 9.8% (previous year: 8.5%).

Compared with the 2006 financial year, there was a substantial increase in the cost of capital of the divisions and thus the Group as a whole. The main reason for the rise in the cost level was the significant increase in the risk-free base interest rate level incorporated in the calculation, based on the interest rate level of long-term government bonds. A further factor was the increase in the market risk premium for investments involving risk of loss for the German market.

#### ROIC and value added

ROIC is calculated as the ratio of underlying earnings before interest, taxes and amortisation of goodwill (underlying EBITA by division) and the average tied-up interest-bearing capital (invested capital) of the segment. In line with its definition, this performance indicator does not reflect any tax or financial effects and is adjusted for one-off effects. From a Group perspective, invested capital comprises equity (including minority interests) and the balance of interest-bearing liabilities and interest-bearing assets. Furthermore the cumulated amortisations of purchase price allocations were readded to the invested capital. Besides the relative performance indicator ROIC, value added is used as an absolute value-oriented performance indicator. Value added is calculated as the product of ROIC less associated capital costs multiplied by the invested capital.

#### Value-oriented key figures

€ million	2007 <sup>2)</sup>	Tourism 2006	2007	Shipping 2006	2007 <sup>2)</sup>	Group 2006
Underlying EBITA by divisions	445.7	394.7	196.7	89.2	612.9	448.3
Ø Invested capital <sup>1)</sup>	4,350.5	5,052.2	2,750.4	2,896.1	6,973.6	7,919.6
<b>ROIC</b>	<b>10.2%</b>	<b>7.8%</b>	<b>7.2%</b>	<b>3.1%</b>	<b>8.8%</b>	<b>5.7%</b>
Weighted average cost of capital (WACC)	10.3%	8.8%	9.6%	7.9%	9.8%	8.5%
<b>Value added</b>	<b>- 2</b>	<b>- 50</b>	<b>- 67</b>	<b>- 140</b>	<b>- 71</b>	<b>- 225</b>

<sup>1)</sup> Average value based on position at the beginning and year-end position.

<sup>2)</sup> Adjusted for the effect of the first consolidation of First Choice.

In order to recognise the value-oriented indicators, a restatement of the increase in invested capital as at the cut-off date resulting from the first-time consolidation of the First Choice activities was effected in the consolidated financial statements. The invested capital base was reduced by the portion attributable to First Choice. At the same time, First Choice's profit

contribution recorded since September 2007 were eliminated. The re-statement thus ensures comparability with the previous year's values.

***Tourism***

ROIC in tourism rose by 2.4 percentage points to 10.2%. In the tourism division the TUI Travel PLC sector achieved a ROIC for the financial year 2007 of 12.6% for the TUI Hotels & Resorts sector a value added of 7.5%. One of the key drivers behind the increase in ROIC was the year-on-year rise in earnings with an average declining invested capital. Overall, ROIC achieved by the tourism division was at the level of the division-specific cost of capital. This resulted in a calculated small negative economic value added of € 2 million for the 2007 financial year.

***Shipping***

Due to the significant increase in earnings year-on-year, ROIC in shipping grew by 4.1 percentage points to 7.2%. However, in relation to the division-specific cost of capital, negative economic value added of € 67 million arose.

***Group***

ROIC for the overall Group was 8.8%, a substantial year-on-year increase of 3.1 percentage points. Taking account of the cost of capital for the Group as a whole, negative value added of € 71 million arose.