

Annual General Meeting

18 May 2004, 10:30 a.m.

Speech

Dr. Michael Frenzel

Executive board chairman

TUI AG

- Only the speech as given is valid -

Ladies and Gentlemen,

Dear Shareholders,

It is my great pleasure to welcome you, both in my own name and also on behalf of my fellow Executive Board Members, to this year's Annual General Meeting of TUI AG. We are very pleased that so many of you have come to Hanover again this year.

We also welcome the representatives of the press and the pupils and students attending this meeting as our guests.

You are already familiar with our Annual Report. As the motto of our current Annual Report for 2003, we have adopted a special slogan:

"Values Create Trust".

You are sure to have noticed that we have applied the design concept of the Annual Report to this AGM as well. Today we want to give you a comprehensive understanding of the "Added Values" which TUI offers its customers. You, the Shareholders, will profit in the end, i.e. in the results.

Our work focuses on our customers' trust. Our objective is always to "add" to the satisfaction of the holidaymakers, our customers. We want

it "all to add up", to the extent that their expectations are not merely fulfilled, but surpassed.

Our umbrella brand "World of TUI" has enabled us to create the necessary preconditions for this in a quite unique manner. Our TUI trade mark shines like a beacon at all the favourite holiday destinations, a visible symbol of quality and joie de vivre in the holiday business.

Our logo also adorns the shirts of the Hannover 96 football team, which is in its second season in the first division and last weekend succeeded in ensuring that it would stay there. My sincere congratulations on that achievement: TUI is a first-division company, and the "Reds" of Hannover 96 remain a first-division team. At one o'clock, some of the team's players will be in the Niedersachsenhalle, where they will be pleased to sign autographs for you, or for your sons or grandsons. Sponsorship is an important component of our marketing activities. Our logo enjoys above-average familiarity, respect and appeal, and has come to do so not only in Germany, but throughout Europe. If you look at the current competitive environment, you will see that we have consistently enhanced this unique positioning. Our Group is enjoying extremely dynamic development. We intend to continue along this path.

The foundation for the transformation we have undergone, which is unique in the history of German business, was laid seven years ago. The conversion of Preussag with all its different industrial activities

into the world's leading tourism company TUI is now practically complete. 84 tour operator brands in 18 countries, 3,250 travel agencies, 287 hotels with around 160,000 beds and some 100 aircraft today form the basis for TUI's integrated business model, to which around 18 million customers annually entrust the best weeks of their year.

With World of TUI we have created a value which you too, our shareholders, can trust. On the stock exchange, the TUI share has seen a considerable recovery following the low of €8 per share at the beginning of the year, which had been brought about by political circumstances. In our opinion, which is shared by many experts, the current price of around €17 per share still has upward potential.

2003 was an extremely difficult year. In this context, the Group has coped extremely well with the challenges. This is also demonstrated by the results achieved in 2003. The result generated by the divisions amounted to €913 million, an extraordinarily good result for our Group.

In the past year, we forged well ahead with the reorganisation of the Group structure. Key steps here included the sales of the Energy Division and the AMC Group.

We are continuing to advance determinedly along our path. In the Tourism Division we shall continue to develop our business model consistently and take a proactive approach to new customer trends.

The radical cost savings introduced in recent years have resulted in a sustained improvement in our competitive ability.

In this context, I would like to take a closer look at one key development. As of the end of 2003, we have nearly halved our debt from the €6.9 billion it stood at in 2000, and we will reduce it even further to well below €2 billion by the end of 2005. By 2005, the restructuring measures will be completed with the sale of the remaining VTG activities and of Algeco, and with the intended Hapag-Lloyd IPO.

TUI AG, your company, will then have assumed a strong position as the leading tourism company in Europe, or even the world, in its relevant markets, with its shipping activities providing further high-yield business. With lean cost structures, sound finances and a strong balance sheet, we are outstandingly equipped to take advantage of the future opportunities on our markets.

Ladies and Gentlemen, we should all be a little proud that we have built up, here in Germany, and at this Hanover location, a company which has succeeded in positioning itself in a market of the future. I very much doubt whether our old Preussag would still be able to hold its own today.

But first, let us look at the past financial year.

You already have the Annual Report, which sets out the business development and the consolidated financial statements for 2003 in great detail. I shall only make a few brief comments about the past financial year. Mr Feuerhake will then explain the details of the consolidated accounts to you.

The economic forecasts for 2003 anticipated world economic growth, with an end to the recession in Europe which had started after the terrorist attacks in September 2001. Instead, we saw war in Iraq with negative effects on economic development. In Germany, not even the initiation of moves towards reform was able to pull the economy out of the doldrums; instead, stagnation continued. In nearly all our relevant markets, the demand for holiday travel declined in the first six months of 2003, resulting in excess capacities particularly in air travel, together with extremely tough competition.

In spite of these difficult fundamentals, we have still managed to produce a clearly positive result of €208 million for the tourism Division. After a poor start to the year, during the second six months we saw a clear recovery, so that in the end we are one of the few tourism companies to have been able to conclude the crisis year 2003 with a good result.

However, developments in the individual regions varied greatly.

The result for Central Europe suffered more than any other area of the Group's tourism activities. The figure of minus €17 million was well

down on that of the previous year. Germany in particular saw extreme pressure on prices with weak demand.

The result for Northern Europe by contrast was clearly positive at €79 million, even though here again it was not possible to replicate the figures of the previous year. The efficient, extensive vertical integration of the organisation in the UK absorbed much of the effect of the weaker market, which however also remained far more stable in terms of demand than the German market. The Nordic countries also profited for the first time from the successful restructuring measures of the previous years. In the last few months, business in Scandinavia has continued to see positive development and is well back into the black in 2004.

The result for Western Europe amounted to €42 million. This considerable improvement compared to the previous year reflects our successful reorganisation of Nouvelles Frontières. In France we now have in Nouvelles Frontières a company which as market leader has considerable future potential.

Once again, our hotel sector and our agency business in the destination areas proved themselves to be steadily profitable pillars of our integrated business model, together earning a good result of €105 million.

Altogether the Tourism Division has produced a clearly positive result, which must be seen as satisfactory particularly in the context of the

events of last year. Even so, we consider that our core business will have a far higher profit potential once the market environment has returned to normal again.

Ladies and Gentlemen,

In the last few weeks, I have been asked time and again why we have done so much better than our competitors.

In my answer, I mention three reasons:

- 1.) We are regionally diversified in three differently sized market regions. The poor demand on the German market was offset by more stable English and French markets, and this has helped us to come out in the black on the bottom line. Without Thomson and Nouvelles Frontières, Ladies and Gentlemen, the results for 2003 would have been far worse.
- 2.) In this year of crisis, our integrated model proved its worth. By consistently steering business in the direction of our own aircraft and hotels, even in the extremely poor market environment of the first six months, we managed to keep our load factor and occupancy levels high. In particular, our hotel holdings stabilised the results for 2003. Thus the second reason is the extent of our vertical integration.
- 3.) Furthermore, our integration model also has sufficient flexibility built into it to absorb fluctuations in demand. With levels of own provision of around 65% for air travel and around 15% for

hotels, we can control our risks flexibly by mixing external and own production. In other words, it is the flexibility of our business model which is our third advantage.

The model of the integrated group had to stand up to much criticism, some of it very harsh, during the crises of 2003. In our integrated model, all the links of the value chain making up a package tour come from one single source: sales, tour operator, flight and hotel.

In the debates it was often overlooked that the basic idea behind the model is very simple: we want to be more than just a trader, and aim to persuade our 18 million package tour customers to use our own aircraft and own hotels, which is where our margins are the largest. However, the prerequisite for this is that we react flexibly with this system and keep the individual production stages as cost-efficient as possible. This is the challenge that faces us day after day, and which we will have to continue to master in future.

This general background also explains our willingness to innovate. We are seeking to address new types of customer whom we were not reaching through the classic channel, e.g. through travel agents. As European market leader, we must be in a position to offer a solution to every single customer if we want to remain competitive in future. To maintain our position as market leaders, we have to be leaders in innovation as well. This is a challenge which we are glad to take up.

So much for tourism. Now let us turn to **logistics**.

The **shipping market** has been characterised by far more favourable economic conditions. Fuelled by growing world trade, container shipping has profited from higher transport volumes and also from improved freight rates. The Shipping Division produced an excellent result amounting to €252 million, more than double that of the previous year.

Since we purchased Hapag-Lloyd AG in 1997, we have made considerable investments in shipping and nearly doubled our container shipping capacities, which is now paying off in the favourable market environment.

By contrast, the contribution made by special logistics to the overall Hapag-Lloyd results was lower than in the previous year. VTG-Lehnkering and Algeco felt the effects of the sluggish economy, but benefited from their leading positions in their markets and still managed to produce satisfactory results overall. The main source of Hapag-Lloyd AG's earnings is in shipping, which is why it is only logical that we should be focusing the company on this aspect at present.

As far as the Groups' other operating units are concerned, the results from the Trading Division, which in 2003 still consisted of the AMC Group and the US steel trading business, contributed only €12 million, which was far lower than in the previous year.

The high contribution of the Central Division to profits, amounting to €379 million, primarily represents the proceeds from the sale of the Energy Division.

To sum up, the results of the operating divisions were well up on last year at €913 million, and the consolidated annual profit of €315 million was also a great improvement.

Altogether we can be satisfied with the results for 2003, even if it was an extremely difficult year in operational terms. In this context, thanks are due to the more than 60,000 members of staff world-wide whose great commitment and skills have made a vital contribution to achieving our corporate objectives in an extremely difficult environment.

Many thanks!

Ladies and Gentlemen,

Let me look to the future.

TUI stands first and foremost for tourism. In addition, we will in future also hold the majority of shares in Hapag-Lloyd AG as a listed company which is focused on shipping.

Tourism first:

Today, TUI with its €12.7 billion turnover is the clear market leader in Europe. Furthermore, we are the only tourism company today with a

really European alignment. We intend to continue expanding this. In the last few years we have acquired a strong market position on nearly all European source markets. In 9 countries we are the principal tour operator, including the key source markets Germany, England and France, and we are number 2 in another 5 source markets.

Let me say in this context that our Group is still perceived as being predominantly German. But my dear shareholders: the fact that the figures for Germany and the accompanying comments are not so positive for once does not indicate a general weakness in the Group. Nowadays, the German source market only accounts for one-third of our business.

And we intend to expand our presence in regional markets even further. We will continue to strengthen our activities in Eastern Europe, for example in Poland, Hungary and Slovenia. New important markets are being developed in Russia and China. In China we have entered into a partnership with **China Travel Service**. A few months ago we started developing the tour operator business for holidaymakers coming from China. In Russia our search for a partner has been successful and in the next few weeks we will be acquiring an extensible holding in a tourism company.

With this market presence, World of TUI is the only European integrated holiday company which offers its customers all the holiday components from one single source: from the travel agency via the flight and transport at the destination through to the hotel bed. We

also want to establish our business model outside Europe, markets permitting.

As I have already mentioned, the business model of the integrated tourism group has proved to be very successful even in a difficult market environment. But we do not consider this business model to be an end in itself. On the contrary, we want to handle each market, including the markets of the future, in the best possible way in the context of its own specific characteristics.

This is why we are continuously working to further develop our business model and to unfailingly adapt our processes and products to the needs of our customers and to the regional requirements.

A willingness to innovate and the swift implementation of new market trends are going to be the key elements for success in future.

Let me illustrate this with a few examples:

Our **sales network** is the largest in Europe. It consists of a variety of elements: the travel agency, the internet, TV and the call centre. We will continue to invest in the efficiency of our sales network by optimising cost structures, enhancing our expertise as advisers and above all implementing innovative solutions such as our "no frills" concept "Touristik Express".

The internet will play a central role in our future sales strategy. We currently have more than 50 own **websites** where our products can be booked. Our online sales are growing at double-figure growth rates, one reason being that on the internet we profit from the familiarity of our brands. In the UK we are already the market leader, ahead of the major internet portals. Our internet sales have multiplied ten times over since 2000. We expect the figure to double again this year, and in the not too distant future we expect to generate 20% of our sales online.

The focus of our **tour operator business** is on package tours of an attractive quality which guarantee the customer a carefree, comfortable holiday at a fair price. Last year we sold more than 18 million package tours. Here we have recourse to a broad portfolio of many different brands. We can find the ideal solution for nearly every customer request, from the major brands for the high-volume quality segment, via premium operators or specialists right through to genuine discounters.

We also aim to attain to a leading position on the high growth "**modular market**", where the customer puts together the individual elements of his holiday himself. In this context we have started to make it possible to book the individual components of a package tour separately as well. Our new hotel portal TUI-Hotels.com offers not only the Group's own hotels but also several thousand beach, city and classic holiday hotels for the individual holiday, which can be combined

with flights using our airlines. In this connection, we will be relaunching the well-known tourism brand "Touropa" and positioning it as an online tour operator. From 2005 onwards, Touropa will offer its holidays exclusively via the internet, at prices that be varied from day to day. All this will of course not replace the package tour, but will stand alongside it as the right product for a different clientele.

The greatest changes taking place at present are no doubt those occurring on the market for air travel. New business models and new competitors are thronging onto the market and putting pressure on their established competitors. The Group's own airlines have so far managed to withstand this competition. In particular, the new business model being used by **Hapag-Lloyd Express** has proved successful in Germany, and will get the airline into the black this year.

In view of the fact that consumers are getting increasingly price-conscious, a competitive price structure for the Group fleet is now the crucial success factor.

At the moment we are in the middle of difficult collective bargaining negotiations, and let me take this opportunity to say with all clarity:

Any insistence on demands which are in excess of the cost structures of our competitors jeopardises the long-term utilisation of the Group's own fleet. But the status of discussions with the trade unions gives us hope that it will be possible to find a solution acceptable to both sides.

I would like to say just one more thing about low-cost flying. The market is developing very vigorously. There is now considerable overlapping between the charter and low-cost segments. Hapag-Lloyd Express and Thomson-fly.com give us flight capacities which can be used for cost-efficient flights to tourist destinations: they are safeguarding our core tourist business.

The demand for air travel for holidays and also for weekend trips has increased substantially in recent years, and our Group brands enjoy extraordinary acceptance. This is a good prerequisite for strong growth in the air travel business. For example, on 1 April TUI Belgium took up flight operations in Belgium with great success, and will be expanding its fleet to 7 aircraft this year. Our Air Travel Division will remain an important strategic asset which will continue to earn good returns in future in association with our tourism business.

And then there's the **hotel business**.

It is above all from our hotels that we expect above average growth opportunities. Our strong hotel brands such as RIU, Grecotel and Robinson play a major role in the holiday experience enjoyed by our customers and make an essential contribution to the results of our Tourism Division.

We will continue to add a variety of differing hotel products to our portfolio, turning particularly to products which are geared to specific customer needs. For example, we are using the know-how at Magic

Life to develop a new product line for the British market. Both Robinson and RIU continue to enjoy further growth. The intended growth in the hotel sector will be achieved above all with new hotel buildings and extension projects, producing internal growth and thus further enhancing the earning capacity of this division.

At this point I would just like to summarise the key elements of our strategy once again:

- We wish to continue to enhance our leading position on the tourism market and to grow in our existing business, as well as by developing new source markets.
- We will use our well-known brands to continue setting trends and to get involved in leading the new growth markets such as low-cost, dynamic packaging or modular products.
- We will continue to optimise our integrated business model and expand our hotel and air travel sectors as key profit contributors.

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We expect our markets to continue to achieve the same moderate level of growth in future, and also that with our new cost-efficient organisation we will be able to profit from this.

So much for the plans for tourism.

I turn now to logistics:

Ladies and Gentlemen,

At the start of the year, the Executive and Supervisory Boards decided to continue focusing the company's logistics businesses and to float **Hapag-Lloyd** on the stock exchange as a shipping company, offering a minority stake for sale by way of an IPO.

Hapag-Lloyd in general and the container line in particular have seen splendid growth since joining the TUI Group. Over the last six years, nearly €1 billion have been invested in these activities. We expect to see world trade and the containerisation of world trade continuing to grow strongly in the future. There is no reason why Hapag-Lloyd should not continue in future, as it has done in the past, to capture an above average share of this growth. This will demand further considerable capital investment.

In future we will be seeking to spread the funding requirements needed to share successfully in this growth over a number of shoulders. To this end we are currently planning to go public with Hapag-Lloyd. The plan is to place about one third of the shares on the market. TUI is to retain the controlling majority of shares and we will continue to consolidate the shipping business in our accounts.

There is currently public speculation from a number of quarters about a complete sale of our Hapag-Lloyd shares. Here I would like to say

that we are currently working hard on preparing for the Hapag-Lloyd IPO. This is the ideal solution for us at present. However, if we were to receive a serious offer, we would be obliged in the interests of the shareholders, i.e. in your interests, and in the interests of Hapag-Lloyd AG, to consider such an offer carefully. Up to now we have not received any concrete offers.

As part of these preparations for the IPO, we have decided to sell VTG-Lehnkering and Algeco. We examined the possibility of including both these units in the IPO with Hapag-Lloyd, but came to the conclusion that attempting to float a conglomerate of this kind would result in an unacceptable markdown, and consequently to a destruction of value.

Nor are there any indicators in favour of keeping these units in the Group from a financial point of view. VTG-Lehnkering and Algeco both demand a high input of capital, which we would rather devote to our core business areas and growth sectors tourism and shipping. In the first quarter 2003 we managed to sell the bulk traffic and special logistics business of VTG-Lehnkering AG. Preparations are also under way for the disposal of the remaining activities of what has now been renamed VTG AG – rail and tank container logistics – and for the sale of Algeco S.A. In view of the great interest shown in these companies, we are very confident that we can expect a swift and highly satisfactory result.

Ladies and Gentlemen,

In accordance with a past judgement of the Federal Court of Justice – the so-called Holz Müller judgement – we had intended as a precautionary measure to obtain the consent of this AGM to the Hapag-Lloyd AG IPO. It was not until some weeks after we had issued the invitations to the AGM that a new decision was handed down by the Federal Court of Justice, superseding the earlier judgement.

According to this most recent judgement, the decision to sell part of a company on the scale here envisaged is a matter solely for the Executive Board of the company. A resolution only has to be presented to the AGM if there is a question of selling nearly the entire company assets. Even if we were to sell off Hapag-Lloyd completely, this would still not be the case. So we accept this responsibility and [with the approval of the Supervisory Board] we have withdrawn the resolution to item 6 of the agenda. We naturally welcome the opportunity for an extensive discussion of this whole matter during today's AGM and will deal in full detail with all your questions and remarks.

The focusing of the Group's logistics activities on shipping and the IPO for the newly structured Hapag-Lloyd AG together represent another important step for TUI in the direction of achieving for the Group the credit rating we are aiming for in the next 18 months.

Let us take a look now at the current year. The report for the first quarter was published just a few days ago.

We had a good start to the new financial year. Operating figures for the core tourism business are far higher than last year. Sales were 5% ahead of the same quarter last year. The division's result improved by €67 million. This is exactly on budget. This year we want the results for the tourism sector to grow by a percentage that is clearly into double figures, and the first quarter has certainly put us on the right path.

In the Logistics Division, shipping is up on last year with sustained positive development.

The details are as follows:

We are once again seeing positive growth, although this may differ from region to region. The cumulative figures as of 30 April saw our bookings for the summer business 3.3% up on last year, having concluded the winter with 6.1% growth in sales. Growth for the tourism year 2003/2004 is currently at around 4.5%.

The source market Central Europe is seeing moderate growth. Demand has clearly revived as compared to last year. But the German market is currently concentrating particularly on the low-price offers, so that passenger figures are increasing more than turnover. 1-2-fly is profiting in particular from this development in demand. But thanks to the close integration of our areas of business, we have once again been able to increase the number of Hapag-Lloyd Flug flights and the airline's level of seat occupancy during the first quarter.

The source market Northern Europe has also seen considerable growth in booked sales as compared to last year. However, the price increases obtained in the UK will be offset again by the weaker pound. We are very pleased to see the marked recovery trend in the Scandinavian countries, where we have managed to reach the turnaround point.

The source market Western Europe continues to be mixed. Whereas consumers in the Netherlands are still showing a reluctance to make bookings, Belgium is enjoying high growth rates. Here the Group's recently launched airline TUI Airlines Belgium has seen a successful start to its operations. Tendencies in France have so far been too mixed to reveal any clear trend. The package tour business and flight-only bookings were satisfactory throughout the winter season. The first quarter showed a country-specific weakness as compared to last year. Bookings for the summer season have been recovering again for a while now. As far as booked sales for the summer are concerned, the source market Western Europe is on a par with last year.

In the destination areas, both the hotel holdings and the destination agencies are showing positive performances at levels clearly above last year's, so that all in all we can speak of encouraging developments in the tourism sector.

The Logistics Division overall has maintained last year's good level in the first quarter. The key shipping business managed to enhance its performance in spite of the weaker dollar. This is a result primarily of

further volume growth while freight rates have remained stable – a situation to which no end is in sight.

One event of great relevance for the Group was the placement of an **industrial bond** at the end of April. Instead of the initially planned volume of €350 million, an intensive road show led to extraordinarily high demand and a placement of €625 million. This is a splendid success, because it not only enables us to reduce our bank debt faster and further than originally planned, but also shows just how positively investors view the TUI Group.

For 2004 we expect to see considerable increases in earnings in the tourism sector. In the Logistics Division the container line is continuing to do well on a high level. The Hapag-Lloyd IPO is being prepared for the second half of the year.

At the end of the year, TUI will once again be able to present good results. The company's debt will have been further reduced and the company will have reinforced its overall position on the markets.

Ladies and Gentlemen,

May I just summarise as follows:

- We have made considerable progress in restructuring the Group during the financial year 2003, and the divestments announced for 2004 will be implemented swiftly.

- This will complete the conversion of Preussag to TUI. As the clear market leader in Europe, with strong brands and innovative products, we have laid the foundations – created the values – for continued financial success in future too.
- "Values create trust"
- But the reverse is true as well: "Trust creates values"

We ask for your trusting support in future too, and we shall do everything within our power to continue enhancing the value of your company.

Many thanks for your attention; I would be very pleased to see you here again next year.