

Annual Press Briefing 2004

Speech by

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- Check against delivery -

Ladies and Gentlemen,

Dr Frenzel has already presented the results of our consolidated financial statements. I would now like to give you more detailed information and explanations concerning certain items and changes.

As Dr Frenzel has already pointed out: our 2003 consolidated financial statements not only represent an increase in transparency but also anticipate upon future developments in international accounting standards:

- We have already applied IAS standards that will be effective in 2005.
- Due to the strategic decision to realign the logistics division, among others, we have been able to allocate goodwill to the segments.
- In the context of this allocation, we have effected an extremely conservative measurement of our goodwill and have achieved a valuation that positions us very well for the future.
- Our new detailed segment report has enhanced the transparency of the figures presented.
- And we have provided additional information in our management report to further enhance an assessment of our business.

Application of new IAS standards

Let me first of all explain the changes resulting from the application of the new IAS standards which were only just adopted in December 2003.

In the course of the application of IAS 1 which was revised in 2003, the structure of the profit and loss statement has changed. This new p&l statement may seem somewhat unfamiliar at first glance. However, for our segment reporting this means a significant increase in the level of details of our earnings structures and a corresponding increase in transparency.

However, our reporting level was and remains earnings by divisions before taxes on income and amortisation of goodwill (EBTA). A change that will be important for your assessment of our earnings by divisions for 2003 results from the first-time recognition of operating taxes under this item.

As has already been pointed out, earnings by divisions totalled 913 million euros. Under the previous accounting rules, they would have totalled 956 million euros, i.e. 43 million euros higher. The difference is attributable to operating taxes (with minus 55 million euros) and the reclassification of various goodwill figures (amortisation of

goodwill of companies measured at equity and asset deals, with plus 12 million euros).

Earnings by central operations

Dr Frenzel has already commented on the development of earnings by divisions. Let me now give you some details on earnings by central operations.

The level of earnings was materially affected by the gain on disposal from the divestment of the energy sector. Overall, the divestments of the 2003 financial year generated unusual income of 930 million euros. This income included 730 million euros from the divestment of Preussag Energie GmbH and 200 million euros from the divestment of the indirect shareholding in Ruhrgas AG. The settlement of completed and planned divestments entails latent risks for which we have set up provisions. These have resulted in unusual expenses of 259 million euros.

The net effect of unusual expenses and income on earnings by central operations amounted to 671 million euros.

The net interest result of central operations has improved considerably: it stood at minus 140 million euros (following minus 221 million euros in the previous year). This clearly reflects the positive effect resulting from the reduction in

our net debt, essentially due to the divestment of the energy sector.

The costs of our central operations which mainly include TUI AG's corporate centre costs have also dropped. They totalled 143 million euros (following 155 million euros in the previous year). Here we are beginning to benefit from the cost containment programmes, which have also been implemented at our headquarters. However, we will not be able to fully benefit from these measures until the current financial year as our personnel measures have initially incurred costs.

Goodwill

Let me now turn to the second area of changes in our consolidated financial statements: the allocation of goodwill to individual segments and the current measurement of goodwill. The latter will have a positive effect on the Group's future earnings.

Let me first make a preliminary comment: in the course of the realignment of our Group into the European market leader in tourism, we have acquired a large number of companies. In 1997, for instance, we acquired Hapag-Lloyd AG, a company operating in both tourism and logistics. On this basis, we then created new business units, restructured existing units and tapped synergies. Finally, in the autumn of

last year, we then removed the domestic tourism activities from Hapag-Lloyd AG under company law. During that process, it would have been impossible to allocate goodwill from acquisitions on a reasonable basis.

With the legal restructuring and the decision to concentrate on our core business in logistics, we are now taking major steps towards the completion of the realignment of our Group. We have consolidated our business structures in tourism, our core business. In logistics, it has become clear which units will remain part of our Group in the long run. For our 2003 consolidated financial statements, we were thus able to allocate goodwill.

Subsequently, we conducted a stringent impairment test for each individual goodwill unit. In applying the yardsticks in these tests, we also took into consideration that the impairment-only approach which will probably be compulsory as of 2005 does not allow for any scheduled amortisation of goodwill any longer.

On the basis of the results of our impairment tests, we recognised impairment losses of 383 million euros in addition to scheduled amortisation of goodwill of 284 million euros. Total amortisation of goodwill with an effect on results stood at 667 million euros.

Impairment losses were almost exclusively related to the Northern Europe sector of our tourism division, primarily our business in the Nordic countries. However, this impairment is not an indication of poor business performance in the units affected, nor of bleak prospects. Let me mention the example of our activities in the Nordic countries where booking figures have clearly picked up again following two poor years.

However, it is important to note that our core business in the major markets of Germany and the UK – with the TUI and Thomson Holidays brands – passed their impairment tests with flying colours. This clearly shows that any strategic prices paid in the relevant acquisitions are fully justified even today.

Due to the allocation of goodwill to the divisions, goodwill now has to be recognised in the national currency of the acquired subsidiary. The application of this IAS standard resulted in an additional reduction in goodwill with no effect on results by 371 million euros due to the currency differences between the date of acquisition and the 2003 balance sheet date. This primarily affected goodwill in the Northern Europe sector, due to the currency losses of the pound sterling against euro, in particular in the 2003 financial year.

This currency-induced impairment of goodwill has to be offset against equity on the balance sheet. However, this has not adversely impacted the equity ratio. It actually even rose by 0.8 percentage points to 21.3% since the divestment of the energy sector resulted in a decline in the balance sheet total and changes in the balance sheet structure.

Tax item

Another special feature of our 2003 consolidated financial statements is our tax item which shows negative income taxes of 69 million euros.

To prevent out any misunderstanding, we have indeed paid income taxes of a total of 102 million euros. These taxes were almost exclusively paid abroad. Our domestic income taxes in 2003 were very low, primarily for three reasons:

- Firstly, we only generated moderate taxable income in tourism in Germany.
- Secondly, our shipping business is subject to tonnage tax, a tax which is typical of the sector - a kind of taxation on property.
- And thirdly, the income from our divestments was not taxable in accordance with the tax provisions.

The negative tax item was thus exclusively attributable to changes which had to be accounted for in determining deferred taxes.

These changes primarily resulted from internal restructuring measures within our Group, effected in conjunction with the business realignment of Hapag-Lloyd. This led to a reduction of the provisions formed for deferred taxes totalling 171 million euros.

Earnings figures

Finally, let me briefly come back to the changes in our consolidated financial statements:

As already mentioned, we will continue to use earnings before taxes on income and amortisation of goodwill (EBTA) as the reporting figure for the 2004 financial year. For the first time, the current annual report also presents additional earnings indicators, e.g. EBT, EBITDA and EBITDAR, i.e. earnings before taxes on income, interest, depreciation and rental expenses, not only for the Group, but also for the individual segments of our business.

This will facilitate your assessment of the earnings power of our business as well as comparisons with our listed competitors. I hope that our detailed presentation of our

earnings statements covers basically all of your potential requests for special information.

Thank you very much for your attention.