

Embargo date: Wednesday, 7 May 2003, 10:00 a.m.

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Financial Press Conference held on 7 May 2003

Statement by Dr. Michael Frenzel, CEO of TUI AG

Ladies and gentlemen,

I would also like to welcome you very cordially to the financial press conference of TUI AG. The past fiscal year, as well as the first four months of the current fiscal year, have been very eventful for TUI: the aftermath of the terrorist attacks of 11 September 2001, the continuing sluggishness of the economy, the effects of the attacks on Djerba and Bali, as well as the long period of uncertainty before the outbreak of the war in Iraq created an extremely difficult environment for us. And since March, we have had to grapple with yet another problem: SARS.

Consequently, the tourist industry has had to revise its short-term growth projections; this also applies to TUI, the market leader. However, despite all adversities, we have successfully continued to pursue our course.

Before I begin, let me briefly tell you about some highlights: We have made major strides in our efforts to focus on the business areas of tourism and logistics; we have continued to reduce our debt; and we have divested non-core business areas as planned. We initiated an extensive cost-cutting programme at an early point in order to safeguard the profitability of the TUI Group, and at the same time, we prepared the ground for a number of innovations.

In the rapidly changing environment, we repeatedly demonstrated our flexibility and adaptability. The Preussag tanker has been transformed into the TUI speedboat that will continue to benefit from its manoeuvrability and speed in future.

Now that we have almost completed the transformation of our Group, we will focus on further enhancing the enterprise value of our company. Our TOP (TUI Optimising Performance) programme, which I will present today, will be an important building block helping to achieve this goal.

First of all, however, I would like to take a short look back at the past year, during which we continued to optimise our portfolio.

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Our most important divestment was the sale of our Energy Division. The timing for this divestment could not have been better for us, and the selling price we obtained fully met our expectations.

The total proceeds from the sale of the Energy Division, which amount to Euro 1.8 billion, will enable us to continue to substantially reduce our net debt, which totalled approximately Euro 5.4 billion at the end of 2002. Approximately Euro 1.6 billion of the sales proceeds will be applicable to the current fiscal year; hence, our net debt will be below four billion euros by the end of the year.

Our full acquisition of Nouvelles Frontières in October last year also helped us strengthen our core business. We thus became the largest integrated tourism group in the important source market of France. The development of earnings is encouraging.

We will soon introduce a new brand in the French market – a brand that will cover the upmarket segment and that will specialise in tours in the Mediterranean region. This brand will round off the portfolio of Nouvelles Frontières, which has so far been primarily focused on offering long-distance tours for the lower and middle price segments.

In addition to expanding our activities in France, we also entered the rapidly growing low-fare air travel market last year. The first few flights of our subsidiary Hapag-Lloyd Express (HLX) took off from the Cologne/Bonn airport in December 2002.

Because of the very encouraging development of this new business area, which is approaching the mark of one million bookings, we opened a second base here in Hanover in April this year.

Currently, we are looking for another location in the southwest of Germany or on the other side of the border in one of Germany's neighbouring countries. With ten leased aircraft, HLX now provides service to 17 destinations in Germany and other European countries. This year, we expect that we will transport a total of approximately 1.8 million passengers.

Ladies and gentlemen,

In 2002, we came much closer to implementing our concept of the TUI Group's final structure. We have now largely sold our industrial business activities, which in 1997 still accounted for 93 per cent of our turnover. In the foreseeable future, we will also divest the few

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remaining activities such as the AMC Group and our US steel trading business.

This means that TUI is now clearly focused on the two divisions of Tourism and Logistics. They account for 80 per cent of our business. We are excellently positioned in tourism. With a turnover of over Euro 13 billion, we are the market leader in Europe by a wide margin. The number-two contender in this market generates approximately 40 per cent less turnover than we do, and the number three achieves only half of our turnover.

After this first overview of the most important developments and events in the past fiscal year, I would now like to present the key financials of the TUI Group for 2002 – a year in which we were confronted with particular challenges.

Last year, our external sales amounted to Euro 20.3 billion, which was nine per cent less than in the previous year. This decline was primarily due to the divestment of our industrial activities. When adjusted for these divested activities, our sales declined by two per cent.

As far as the earnings of our divisions are concerned, we were not able to match the record performance of the previous year. Nevertheless, our earnings before taxes and goodwill amortisation (EBTA) amounted to Euro 608 million, which is quite remarkable in view of the extremely difficult and unstable market environment.

Our Group's consolidated net income fell more rapidly than our EBTA to a level of Euro 41 million, which was mainly due to much higher tax expenditure, resulting partly from non-recurrent transactions and from one-off goodwill amortization in connection with the divestment of shareholdings.

The net income of TUI AG amounted to Euro 137 million. The dividend payout to shareholders will remain stable. At the Annual General Meeting on 18 June 2003, we will propose that – just like last year – shareholders should receive a dividend of 77 cents per share.

Ladies and gentlemen,

After this overview of the performance of the TUI Group as a whole, I would now like to present an account of the performance of our divisions. You have received copies of this overview.

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The business performance of our **Tourism Division** was considerably burdened by the difficult environment that I have already described. While the Division's turnover decreased by approximately three per cent, its earnings fell to Euro 332 million, which was far below the extremely high earnings achieved in the previous year.

Central Europe – which encompasses our distribution activities and our tour operator business in Germany, Austria, Switzerland and Poland, as well as Hapag-Lloyd Flug – was most strongly affected by the sluggish economy and by consumer restraint. However, developments varied widely by region and by product segment. Once again substantial growth was achieved, for instance, with special offers in the last-minute segment.

Overall, our turnover in Central Europe fell by over seven per cent to Euro 5.2 billion. However, in nearly all areas, we outperformed the market, which in Germany, for instance, shrank by over ten per cent in 2002. Our earnings in Central Europe amounted to approximately Euro 100 million last year.

The most rapid decline in earnings was recorded in Germany as a source market. It was not only the tour operator business but also – and primarily – our distribution activities in Germany which suffered from the low market volume.

For **Northern Europe** – which encompasses our distribution activities and tour operator business in the U.K., Ireland and the Nordic countries, as well as Britannia Airways – last year was a similarly difficult year. After a slow start in the U.K. and Ireland, business there picked up considerably in the course of the year, so that overall we closed the year at the level of the previous year. In the Nordic countries, the market remained difficult throughout the year.

On the other hand, we were much more pleased with our performance in **Western Europe** in fiscal 2002 than with our results in Central and Northern Europe. The Western European region includes tourist activities in the Netherlands, Belgium and (as of 1 October 2002) France, as well as the Corsair airline. These countries were less affected by the economic and political uncertainties and thus continued to grow.

Our turnover in Western Europe increased by 17 per cent to Euro 1.6 billion. When adjusted for the first-time full consolidation of the turnover of Nouvelles Frontières in the fourth quarter of 2002, the region's turnover increased by over two per cent. The decline in

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earnings is due to the seasonal fourth-quarter loss in France. In the previous year, France had not been consolidated. When adjusted for the seasonal quarterly loss of Nouvelles Frontières, the earnings achieved in the Western European region were at the previous year's level.

While our **Destinations** Business Unit – which includes the incoming agencies and our equity interests in hotels – increased its turnover, it failed to match the excellent earnings of the previous year. The Unit's earnings decreased to Euro 127 million, especially due to lower utilisation of hotel capacity.

This concludes my comments on Tourism.

Now I would like to move on to our Group's second pillar: the **Hapag-Lloyd Group**.

Because of the difficult economic environment, our logistics activities which we have grouped under the umbrella of Hapag-Lloyd AG also failed to match their extremely strong performance of the previous year.

At Euro 209 million, the Division's overall earnings remained at a high level but the Hapag-Lloyd Group failed to reach its record earnings of the previous year. The Division's turnover decreased slightly to Euro 3.8 billion.

The turnover generated by our **Shipping Business Unit**, which includes the Hapag-Lloyd Container Line and Hapag-Lloyd Cruises, was seven per cent lower than in the previous year. At Euro 127 million, the Unit's earnings were also slightly lower than in the previous year. It was primarily the decline in freight rates during the first half of 2002 that had an adverse impact on the business.

The German market for ocean cruises also remained difficult. Nevertheless, Hapag-Lloyd Cruises stabilised its turnover and improved its earnings.

Our other logistics activities – i.e. VTG-Lehnkering, Pracht Freight Forwarding, and the Algeco Group – increased their turnover by over three per cent to Euro 1.6 billion. However, their margins were also under considerable pressure due to the sluggish economic environment.

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This wraps up the overview of our performance in our two core business areas, i.e. tourism and logistics. As you can see, the rapid deterioration in the economic environment, in particular, had a strong adverse impact on our business in the course of the year.

As I already told you, we have divested our energy business, and we will also sell our trading activities in the foreseeable future. For this reason, I will not give you a detailed account of these activities.

I will tell you, however, that the energy business contributed Euro 143 million to our consolidated net income, which was less than in the previous year. Our trading subsidiaries showed a stronger performance: At Euro 56 million, they increased their earnings by 25 per cent relative to the previous year, while their turnover of Euro 3.2 billion was at the same level as in 2001.

Ladies and gentlemen,

This concludes my comments on fiscal 2002, which was characterised by an extremely difficult economic environment.

At an early point in time, we began to respond to this environment by adopting a set of measures designed to continue to strengthen TUI's profitability and to improve our competitiveness.

These measures are part of our so-called TUI Optimising Performance programme – or TOP for short. I would now like to present this programme, which is composed of four building blocks: costs, structures, finance and innovation. Our TOP programme is far more than just a cost-cutting programme; it amounts to a set of measures that will enable us to continue to achieve value-enhancing growth in the future.

In the framework of our TOP programme, we have adopted a cost-cutting programme that will help us reduce our costs by Euro 260 million in fiscal 2003 and by another Euro 100 million in fiscal 2004. Roughly two-thirds of this sum will be generated by reducing our cost of materials. Through intensive renegotiations with hotel owners, for instance, we have already achieved purchasing advantages. In addition, all cost of materials are currently under close scrutiny.

However, in addition to rigorously reducing our cost of materials, we will also have to make adjustments in our personnel expenses. For our Group as a whole, this will involve nearly 2000 jobs in 2003 and 2004. We are currently in the process of implementing these adjustments.

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We very much regret having to make these staff adjustments, and we will try – wherever possible – to avoid downsizing our workforce and we will try to retain our flexibility; however, we cannot generally rule out downsizing as an option.

In the second building block of our TOP programme – the review of management and organisational structures – our attention is focused on the cost factor and, more importantly, on increasing the efficiency of business processes.

Last year, we successfully implemented greater integration of our distribution, tour operator and aviation activities in the source markets – an area in which we will continue to make further progress. In addition, we will also continue to cost-effectively bundle central functions within the Group in so-called Shared Service Centres. This will allow us to benefit from substantial synergies.

The third building block of our TOP programme comprises the topic of financial liabilities.

At the end of fiscal 2000, TUI's net debt still amounted to approximately seven billion euros. As I already mentioned, we will reduce this debt to below four billion euros by the end of this year due to the sale of our energy business.

However, the goal that we are pursuing in the TOP programme is more ambitious than that. In the next 18 months, we want to reduce our debt by an additional one billion euros. This will be made possible in particular by the divestment of our trading business. During the summer months we will probably be able to report on the first step in this divestment project: the sale of the AMC Group. In our portfolio management efforts, the key criterion is retaining our Group's profitability. For this reason, we will divest assets and shareholdings that do not earn an adequate return on equity or that are outside our strategic focus.

In this context, we are currently examining the possibility of selling some of the activities of VTG Lehnkering, such as the tank farm business, the road haulage business and the chemicals service business. In future, VTG Lehnkering will focus on its rail-bound logistics services.

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Our goal is to obtain an "investment grade" rating in 2004. We will reduce our debt to a level below three billion euros by the end of 2004.

The fourth building block of our TOP programme is innovation. We want to change and lead our industry by introducing innovative products.

The tourist industry is currently undergoing rapid change. In the recent past, there have been major changes both in the behaviour of customers and in the market, especially in Germany, our most important source market.

Today's holidaymakers tend to book their holidays at shorter and shorter notice. Some years ago, about 50 per cent of the travellers had made their bookings by the end of February. Today, 60 per cent of the Germans who want to go on a holiday make their bookings within the last eight weeks before they set out on their journeys.

This trend is further amplified by the fact that consumers are currently extremely price-sensitive. Hence, customers are hunting for bargains, both in the consumer goods sector and in tourism.

At the same time, there is a growing desire among travellers for more and more tailor-made products. Holidaymakers want to be able to assemble their personal dream vacation from a variety of different modules.

In the tour operator market, the changes in consumer behaviour have led to growing polarisation. There are two groups of operators who stand to gain from this trend: on the one hand, operators in the low-price segment; and on the other hand, operators specialising in the premium segment.

In addition, there are constantly new competitors in the market who cover specific parts of the value chain with their products, e.g. Internet travel agents in the distribution sector or low-cost service providers in aviation.

The radical change that the tourist industry is currently undergoing is an opportunity for us to open up new markets, generate more growth and to continue to consolidate our top position in Europe. We see change as an opportunity, not as a threat.

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In order to make effective use of these opportunities, we have initiated a number of projects in the past few weeks in the framework of our TOP programme. I would now briefly like to describe these projects.

Two days ago, we presented our new German brand "Discount Travel" to the public. This most recent member of our tourism family is aimed at consumers who want to use special offers at short notice.

Discount Travel also helps us close a strategic gap in our product portfolio. In the past, we did not have a brand in the German market to provide optimum utilisation of our short-term and medium capacity. With our new retail brand, we will be able to control our capacity utilisation much more systematically.

In addition, we will strengthen our position in the low-price segment by repositioning our subsidiary 1-2-Fly. By means of a better price profile, we will further enhance the strong performance of 1-2-Fly during the past winter season and gain market shares in this growing segment. And you will recall that I have already mentioned the expansion plans of our low-price airline Hapag-Lloyd Express. This airline will be an important building block for the new market segments that will emerge in future.

In future, we will also make greater efforts to cater to the consumer's growing desire for more personalised holidays by offering individual building blocks or modules to travellers from which they will be able to assemble their tailor-made holiday package.

We are currently developing a hotel portal, for instance, that we will use to market both our own and third-party hotel beds at traditional holiday destinations and in big European cities via the Internet. This website will probably become operational in July this year. This new hotel portal will then also be linked to the websites of our two airlines Hapag-Lloyd Flug and Hapag-Lloyd Express.

Ladies and gentlemen,

As you can see, we are doing our best to meet the wishes and needs of our customers and to respond to new market trends with innovative products across the entire value chain.

However, the expansion of our activities and of our product portfolio should not obscure the fact that high-quality package tours will

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continue to be TUI's core business in the future. The high service standard that we provide in this segment is unique in the industry and one of the key reasons for our success. We will not abandon this competitive advantage.

I am therefore firmly convinced that we will continue to participate strongly in the tourist industry's predicted medium-term annual growth of approximately four per cent worldwide – especially since we have another crucial edge on our competitors: We are extremely well prepared for the demographic change that will also affect our industry.

In the course of this decade, the structure of the European population pyramid will completely change. The United Nations expect that, by the year 2010, the age group of the 45-to-65-year-olds will have increased by nearly 14 per cent and that of the over-65-year-olds by over 14 per cent. We will therefore witness the beginning of the era of senior citizens, who are also referred to as the "goldies generation" because of their financial resources.

This age group is not only characterised by a high propensity to travel but the money they spend for their holidays is also higher than average. We therefore assume that demographic change alone will lead to an increase in the turnover of the tourist industry in Europe by seven billion euros by the year 2010.

The "goldies" are already among TUI's main customers today in the two most important source markets, i.e. Germany and the U.K. In both countries, approximately 54 per cent of all customers are older than 45 years old. We are already excellently positioned today to benefit from the "goldies trend". Nevertheless, we will continue to broaden the range of product segments that are preferred by this demanding group of customers, e.g. city, wellness and country tours, as well as cruises.

Ladies and gentlemen,

This concludes my comments on our TOP programme – a programme that will allow us to continue to grow in future while increasing our value. I would now like to move to fiscal 2003, first of all giving you some information about the current status of bookings.

A few days ago, the tourist winter season ended with a slight decline of one per cent in booked sales. However, there were major differences between the various source markets: While bookings in Austria, Belgium and Ireland were much higher than in the previous

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year, consumer restraint had a strong adverse impact on our bookings in other countries, in particular in Germany and in the Nordic countries.

So in the winter season, we were at the previous year's level, but in the summer months we are lagging far behind the levels achieved in 2002 because of the war. Booked sales are currently 15 per cent lower than in the previous year, due to the extreme reluctance of consumers to make bookings during the weeks of the war.

This brings me to the outlook for fiscal 2003.

The war in Iraq will have an impact on the operating profit that we will achieve in tourism in fiscal 2003 as a whole because of the drastic decline in bookings as of March. It will also have an adverse effect on our performance in the first quarter. While we have seen an increase in bookings in the past two weeks, we do not currently expect that we will be able to compensate for the overall decline in bookings in the next few months. However, the statistical base of the past two weeks is too small to make any reliable predictions. We have to be prepared for declining market volumes, especially in Germany, the Nordic countries and Switzerland. Unless there is substantial pent-up demand, we expect that the profit we will achieve in tourism in fiscal 2003 will be lower than in the previous year.

The development in logistics has been more encouraging this year. We have observed increasing freight rates and rising volumes in container shipping services, so that we can expect that our profit in fiscal 2003 will be higher than in the previous year.

The central departments of the TUI Group will achieve substantial improvements by cutting corporate centre costs and by reducing our interest expenses.

In addition, we will benefit from high non-recurrent income of over Euro 800 million in the current fiscal year due to the divestment of energy activities.

All in all, we expect that the performance of the TUI Group's divisions will improve considerably in fiscal 2003 despite the difficult economic environment.

We will use the next few months to improve our profitability and our financial strength in order to substantially enhance our competitive

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position, so that we will benefit more than our competitors once the market situation returns to normal.

Ladies and gentlemen,

After its radical transformation, the TUI Group is excellently positioned in the two expanding markets of tourism and logistics and it is ready to participate to a considerable extent in the future market upswing. We have substantially reduced our debt, and we have prepared the ground with our TOP project to continue to improve our profitability.

Thank you very much for your attention. If you have any questions, I will be more than happy to answer them.