

Speech by  
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CEO of TUI AG

at the Extraordinary General Meeting  
on 28 October 2014  
*- Check against delivery -*

**Embargoed until: 28 October 2014,  
Beginning of Extraordinary General Meeting**

**Shareholders,  
distinguished guests of TUI AG's Extraordinary General Meeting,**

**SLIDE 1 The new TUI: The world's number one integrated leisure tourism group**

Today is a special day for TUI – and TUI's future. Under the umbrella of our great TUI brand, we are planning to bring together what belongs together. This EGM may mark the birth of a new TUI AG. Together, we are planning to combine TUI AG and TUI Travel to form the world's number one integrated tourism group and lead it into the future.

TUI AG will contribute its portfolio of more than 230 hotels and 7 cruise ships. That is what we call "content", by means of which we offer holiday experiences for 5 million customers worldwide. TUI AG also owns the TUI brand and many other brands in our Group. The worldwide presence of these brands is an enormous asset for our Group.

TUI Travel, in turn, is the global market leader in tour operation, serving more than 30 million customers. It operates more than 140 aircraft, more than 1,800 travel shops and incoming agencies in all major holiday destinations in the world.

Taken together, TUI AG and TUI Travel have an extraordinary position in the world market. They cover each level of the value chain in tourism in a manner unparalleled by any other competitor. I will come back to the resulting competitive edge later on, but by way of introduction, let me comment on another crucial aspect of the merger.

The new TUI will remain a stock corporation (an "AG") domiciled in Germany. We will thus remain a German stock corporation, aware of its roots and securing the interests of its shareholders and employees. However, the merger will also turn us

into a truly European group, more so than ever before, and an international employer for 74,000 employees in over 130 countries. We will be at home in the world – as global as our sector.

Let me thank you, our distinguished shareholders, for taking part in today's Extraordinary General Meeting at TUI Arena in Hanover, our current and future headquarters. The independent shareholders of TUI Travel are meeting for an Extraordinary General Meeting in London today in order to likewise set the course for the future, as you here in Hanover, and adopt a resolution regarding the merger for the TUI Travel side.

## **SLIDE 2 oneTUI – Basis for the merger**

I have been CEO of our TUI AG since February 2013. Shortly before, a merger between the two companies had already been considered. However, back then the hurdles were simply too high. However, what is different today compared with the situation in 2012? Why have both management teams been able to agree on a merger that seemed to be impossible for many years? The crucial difference between the present and the past situation is certainly the success of oneTUI.

When I took over, we launched the oneTUI programme, initiating the restructuring of the Group in different areas. That move was urgently required, as I outlined in greater detail at the AGM in February 2014. In the framework of the restructuring programme, we have left no stone unturned, cut costs, enhanced our efficiency. We have created transparency for the business segments, set targets and kept our promises. The results achieved to date are promising. Let me give you a few examples:

We have managed to cut our central costs substantially within one year only – in the first 9 months alone by approx. 30% year-on-year.

In parallel, we have reduced our interest costs, aiming to reduce them to one third compared with the baseline year 2012/13 in the next financial year.

We have considerably increased our profitability at Robinson. We are very confident that we will increase the important return on invested capital at Robinson from around 6% to more than 9% this year.

In our Cruises Sector, we are also confident that we will achieve our goal of creating a turnaround within one year only.

For next year, the envisaged oneTUI targets are within reach.

Ladies and Gentlemen, These measures have enabled us to regain lost trust in the capital market. This has been important for us and has strengthened TUI AG.

The next stage of oneTUI was to initiate the growth phase. Apart from restructuring, we had also planned to achieve substantial content growth, in particular, in the next few years. You will perhaps recall what we said when presenting our half-year results. We had announced to considerably increase our investments in hotels and cruise ships. The merger between TUI AG and TUI Travel will now help us a lot, in particular in achieving the planned growth. But let me come back to this point later.

### **SLIDE 3 Confidence in the TUI share has returned**

Confidence in TUI and in the TUI share has returned, as is also reflected by the development of our share price. While the share price was temporarily below four euros in the first half of 2012, our closing price yesterday was 11.35 euros. Our share price was even higher in between, but, of course, we are not able to

completely decouple from the volatility specific to our sector and the dependence on geopolitical circumstances. Let me just mention the Ukraine crisis and the Ebola epidemic in this context – two events that hardly impact our business results but have a strong adverse effect on the perception of our sector.

As you know, our large shareholder Fredriksen has meanwhile sold his entire stake. Today, we have a balanced shareholder structure, with two large strategic investors, Alexey Mordashov's S-Group and the Riu family, and a free float of around 67 per cent. We have also paid a dividend again for the completed year, i.e. two years earlier than originally announced. Our Company is thus well on track.

#### **SLIDE 4 Our operating results are on track**

This is also reflected by our operating results, which are very positive this year. The third quarter, in particular, has shown this very clearly. We managed to almost double our underlying Ebita year-on-year. Unlike in previous quarters, the earnings improvement was not only driven by cost reductions but for the first time again by turnover growth. Our results were so robust that we were able to more than confirm our guidance of "Ebita growth at least at the upper end of the range of 12%" after the first nine months.

Investors buying TUI shares today know what they will get: a sound operating performance, strong transparency, e.g. in the reports from our hotel and cruise sectors – as you know, we now report separately on our strategic brands here – but also clear strategic statements on the planned alignment of our Group. Ultimately, this also includes our clear statement regarding our stake in Hapag Lloyd Container, which does not fit into our portfolio, does not offer any benefits for our core business and that we intend to exit in 2015. In this regard, we have been consistent in that we have carried Hapag Lloyd Container as a financial instrument in our balance sheet since April.

All of these achievements – the growth in our operating performance, the increase in transparency and the clear strategic alignment – were necessary in order to ensure that firstly, our share was going to win back its lost reputation, and secondly, the relative mark-down of our share was reduced to the sum of its individual parts. These two elements were clearly required in order to relaunch efforts to create a merger with TUI Travel with considerably enhanced prospects of success.

What is more, Peter Long and myself have built a relationship of trust over the past 18 months, and the management teams of our two companies have also moved closer together. We have developed a sound mutual operating understanding, and above all a joint vision for our business. This is a very stable basis for the future.

## **SLIDE 5 Strategic vision of the new TUI AG**

Let me briefly present our joint vision and thus address the key arguments in favour of the merger. Technically speaking, the merger is a vertical integration. In most instances, vertical integration creates value as it helps to differentiate services in the market. That also applies in our case.

In our case, the merger provides TUI Travel with direct access to exclusive offerings, i.e. content, in the hotel and cruise segments. These offerings are very scarce in the hotel sector, above all in the strongly growing destinations in the Caribbean and the Indian Ocean. Incidentally, this also applies to cruise ships. If you order a vessel from one of the 4 remaining shipyards in the world, you cannot realistically expect delivery before 2020. TUI Travel will thus complete its value chain from advice and booking via pre-trip and journey all the way to hotel accommodation or cruise ships, in the strongly growing holiday segments, as already mentioned: long-haul

travel to the Caribbean and Indian Ocean, and German cruises. As content is the main driver of differentiation in our sector, it enables TUI Travel to differentiate itself from the rest of the industry, which plays an increasingly important role, in particular in competing with the emerging internet platforms.

Conversely, the merger creates an enormously strong distribution platform for us in order to enhance occupancy of our Group-owned hotels and cruise ships. This will enable us to grow faster since we will achieve a de-risking of our investments in hotels and ships as we will be able to control occupancy ourselves through our direct access to markets and customers. We had already devised our growth strategy at the end of the first half of the financial year in the framework of the launch of the second stage of oneTUI: 30 new hotels and ships 5 and 6 of our TUI Cruises fleet. On the basis of the new Combined TUI AG, we will be able to double that pace, i.e. to a total of 60 new hotels and 4 new ships, i.e. in addition ships 7 and 8 at TUI Cruises.

Let me emphasise at this point that the vertical integration I have outlined is focused exclusively on the Mainstream Business. By contrast, synergies in other business segments, e.g. specialist tour operators, are low. These segments will therefore be run separately, outside the Mainstream Business. This unit, managed by the future CEO William Waggott, will get the leeway it needs in order to develop separately, i.e. in a separate unit (Specialists and Activities) and thus increase its value in the interest of the Company and the shareholders.

## **SLIDE 6 Considerable synergy potential**

Apart from the strategic dimension of the merger, there are also considerable cost and tax benefits clearly supporting a merger of the two companies.

Firstly, the merger will result in central cost savings of €45m per annum, achieved by means of cutting out overlapping central functions. Additionally, of course, the current dual listing in Frankfurt and London generates costs that will at least partly be saved following the merger.

Secondly, a tax effect will be achieved. The merger will enable us to manage TUI AG and TUI Deutschland in a single tax grouping, enabling the use of loss carryforwards. It will also be possible to charge central costs against German turnover and profits, whereas today these costs have to be paid from dividends taxed in full. Thanks to these effects, a cash tax benefit of €35m would have been achieved had our two businesses already been combined in financial year 2012/13. They would thus have delivered a decrease in our Group's underlying effective tax rate from 31% to 24%.

The third effect will result from the integration of our inbound services into the Mainstream Business and the associated realignment to our in-house tour operation business. Here, we will deliver efficiency gains worth €20m per year.

Last but not least we will also be able to increase occupancy of our Group-owned hotels as they will be managed in a uniform company also comprising the tour operator. As our experience with Magic Life has shown, it was possible in that case to increase occupancy from less than 80% to 85%. In order to achieve this improvement, TUI AG had to sell Magic Life to TUI Travel, which has since managed it as a vertically integrated entity. This move has led to a corresponding change in responsibility for occupancy. As our hotels achieved average occupancy levels of 80% in the completed financial year, it should be possible to achieve a similar effect. As each 1 percentage point of occupancy improvement improves our Group EBITA by around €6m, substantial levers take effect in this regard.

Ladies and Gentlemen, you can see that apart from the strategic realignment the merger of our two companies will also deliver considerable synergy potential. Taken



together, there are convincing arguments in favour of your approving the merger today.

## **SLIDE 7 Key merger terms**

Let me now comment on the key terms of the merger.

In formal terms, the merger between TUI AG and TUI Travel is a share-based takeover of TUI Travel by TUI AG. The exchange ratio of 0.399:1 was assessed as fair in various expert opinions, already mentioned by Professor Mangold. The capital increase required for the takeover is one of the key proposals for resolution at today's Extraordinary General Meeting.

In parallel to our EGM, TUI Travel is also convening a General Meeting in London today, with a slight time lag. As we are the main shareholder of TUI Travel with a stake of more than 50 per cent, we are not entitled to vote at that EGM. It is crucial and necessary for the minority shareholders to approve the transaction by a majority of three quarters.

However, the strategy and synergy arguments are also convincing for the TUI Travel shareholders, who will receive a special dividend of 10p per share for financial year 2013/14. What is also attractive for all shareholders – TUI AG and TUI Travel shareholders alike – is that the merger is expected to reduce the structural discount at which TUI AG shares are currently traded. In a nutshell, both we and the TUI Travel Board believe that we have convincing arguments in order to be able to achieve the required majorities in Hanover and London today.

Ladies and Gentlemen,

The new TUI AG will remain domiciled in Germany. The new TUI AG will thus be a German stock corporation with full co-determination. However, the new company is to be listed in the Prime Standard of the London Stock Exchange. We would thus be the first German stock corporation listed in London and included in the FTSE Index. Inclusion in the FTSE is primarily important because many institutional investors of TUI Travel are only allowed to hold shares in this segment in accordance with their statutes. If we had remained in the MDax, these investors therefore might have had to sell. The price pressure on our stake would have been enormous, probably even prohibitive. The premium listing in London also underpins our global approach and will enhance the attractiveness of our share for international investors in the medium term.

On the other hand, we are seeking a parallel listing in the Open Market on the Frankfurt Stock Exchange. A bank commissioned by us would be our Designated Sponsor, ensuring that there would always be sufficient liquidity. This would facilitate trading in TUI AG shares in euros and at transaction costs more or less corresponding to today's level. In our view, this will be in the interest of our private investors, who, of course, want to invest in euros on a German stock exchange. Private investors have always been very loyal throughout the transformation process, even when we changed from Preussag to TUI. We therefore attach a lot of importance to remaining attractive for them.

In accordance with the Articles of Association of a German stock corporation, we will, of course, continue to have a Supervisory Board that falls under the co-determination system. In order to retain the expertise of the key members of today's Supervisory Board of TUI AG and the Board of TUI Travel, we consider the enlargement of the Supervisory Board to a total of 20 members as appropriate.

## **SLIDE 8 Leadership continuation**

We also bank on a continuation of leadership. The new Executive Board will be managed by Peter Long and myself as co-CEOs for a period of about one year. I am looking forward to working with Peter in order to jointly complete what we have initiated through the merger. The other members of the Executive Board will be Horst Baier as CFO and Sebastian Ebel in charge of HR, Hotels, Cruises and IT – i.e. the key global platforms-, Johan Lundgren as deputy CEO in charge of all tour operation markets, and the former CFO of TUI Travel Will Waggott, in charge of Specialists and Online businesses.

It is planned that Peter Long will then move to the Supervisory Board in February 2016 with the approval of the AGM. He will then take over as Chairman of the Supervisory Board from Professor Mangold, who will have to retire for age reasons. I personally consider it to be very important for our Company for Peter Long to be available in the function of Chairman of the Supervisory Board. He is and remains the most experienced tourism manager in Europe.

## **SLICE 9 Benefits for you as TUI AG shareholders**

Ladies and Gentlemen, the merger creates the world's number one integrated leisure tourism group. We will thus create value for the Company and for you, our shareholders. Let me once again comment on the individual items and summarise them:

1) There is considerable potential for synergies. Delivery of these synergies is largely secured, as they essentially constitute cost, tax and efficiency synergies. They will already generate a positive effect in the first full financial year so that (underlying) EPS will directly increase.

2) The dividend potential of the new TUI AG will be considerably higher than the potential of today's TUI. This results from direct access to substantial cash flows. The attractive dividend policy of TUI Travel will form the yardstick for the new TUI Group. We are planning to propose payment of a dividend of 33 cents per share as early as for financial year 2013/14.

As already mentioned, direct access to cash flow will also lead to the expected reduction in the structural mark-down of the TUI share.

3) Bringing together the content portfolio of hotels and cruise ships with access to tour operator customers offers substantial benefits. On the one hand, good content is relatively rare in the key growth markets, while on the other hand we are generating additional, accelerated, considerably de-risked content growth. Our price/occupancy control will also be more efficient.

4) The Group structure will be considerably simplified, so that its competitiveness is expected to be considerably increased, in particular versus the new internet platforms. The continuation of leadership will reduce the implementation risks.

Ladies and Gentlemen, the arguments are convincing, and the path is clear. However, we first need your decision. My CFO colleague Horst Baier will take the floor in a moment to comment on today's proposals for resolutions regarding capital issues in greater detail. A number of capital measures are required as we are planning to carry out a share-based transaction. Further proposals for resolutions relate to governance. Professor Mangold had already explained the planned enlargement of the Supervisory Board. Should you approve the proposals for resolutions, the closing of the transaction might take place in December of this year at the earliest. The closing is the formal completion of the transaction. It would usher in the era of the new TUI AG. However, a closing in the first quarter of next year would certainly not be a disaster, either.

## **SLIDE 10 The new TUI – A share with a future**

Ladies and Gentlemen, I believe in the success of the merger. Many mergers fail because the cultures of the companies involved do not fit together. In the case of our merger, the cultural framework also fits nicely. This was to be felt during the extensive negotiations over the past few months. The managements of both companies and the Supervisory Board have had many meetings, pushing the preparations for the merger between TUI AG and TUI Travel ahead. These negotiations have been successful because they have been driven by a common understanding of the challenges facing our sector in the internet age, a common understanding of the strategy and opportunities of an integrated TUI Group, a common understanding of what is to make us successful in the future and differentiate ourselves from our competition. And they have been successful because they have always been conducted in a targeted, conscientious, serious and fair manner. I deliberately also emphasise fairness. Good business is always business that feels right and pays off for both partners in the end – “win-win” situations, as the British would say.

Our customers already only see “one” TUI today, our employees already feel they are part of the worldwide TUI family and do not distinguish between TUI AG, TUI Travel, TUI Deutschland or TUI fly. Culturally, we all belong together, and now we are setting the organisational course for a combined company. Our goal is to put an end to a situation that nobody has really regarded as natural. For our customers and our employees, there has always been “oneTUI”.

Ladies and Gentlemen,

Today is the day of our shareholders. Today you will decide about the path ahead and the future of your and our TUI. With your vote you will shape the creation of a new, more valuable, stronger and more attractive TUI, for the benefit of our customers, shareholders and employees.

Since our plans were first published in the summer, many shareholders have addressed me in writing or in person. Many of them have spoken of a breakthrough for the development of our Company, which is now “finally” to be reached. That is why I would like to thank you for coming here to TUI Arena in Hanover today. Let me also thank all of those who have submitted their votes in advance through proxies. And, of course, I would also like to ask you to place your trust in use and approve the proposals for resolutions that you will have to vote on in the course of our agenda.

Thank you very much!