

TUI Travel PLC
("TUI Travel")

Pre-Close Trading Update

TUI Travel PLC announces the following update on current trading prior to entering a close period ahead of reporting its Preliminary results for the year ended 30 September 2014 on 4 December 2014.

Peter Long, Chief Executive of TUI Travel PLC, commented:

"We are very pleased with our trading during the Summer 2014 peak season, particularly in the UK and Germany, with most of our programmes now almost fully sold. Our strong trading and market performance continues to be driven by increased customer demand for unique holidays and higher conversion rates from our web platforms, driven by our digital transformation strategy.

Our flexible and resilient business model is enabling us to deliver sustainable, profitable growth against a backdrop of more competitive trading in the commodity space and an increase in airline capacity. As a result of our successful strategy, we are confident of achieving full year underlying¹ operating profit growth of at least 9% on a constant currency basis², versus our previous guidance of 7% to 10%."

Highlights

• **Mainstream model driving outperformance**

- Full year underlying¹ operating profit growth of at least 9% on a constant currency basis², versus our previous guidance of 7% to 10%.
- Strong high-season Summer 2014 trading closing out as expected, with higher average selling prices across Mainstream overall.
 - Pleased with UK yield performance (ASP +1%) and flat bookings, despite tough comparatives
 - Strong trading in Germany since the end of the World Cup with package holidays up by 22% (overall bookings up 9%) and margins ahead of last year
- For Winter 2014/15, we have sold approximately 38% of the overall Mainstream programme with overall bookings up by 2%.
- Encouraging start to Summer 2015 trading with UK bookings up by 11%.

• **Unique holidays and online focus delivering results**

- High demand for unique holidays continues - accounts for 70% of overall Mainstream Summer 2014 bookings, up three percentage points on prior year.
- Strong online performance with Mainstream Summer 2014 online bookings up by 9%, accounting for 37% of holidays booked, up by three percentage points on prior year.
 - Germany performance particularly encouraging with online bookings up by 19%.

• **Online Accommodation growth**

- Accommodation Wholesaler continues to consolidate its global leadership position with double-digit TTV growth of 17% for Summer 2014

¹ Underlying operating profit/loss excludes separately disclosed items, acquisition related expenses, impairment of goodwill and interest and taxation of results of the Group's joint ventures and associates.

² Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result in the current and prior year

CURRENT TRADING

Summer 2014

Summer programmes across our Mainstream markets are now almost fully sold. The season is ending with higher average selling prices across the Sector. Overall Mainstream bookings have traded broadly in line with the same period last year, despite strong year-on-year comparatives.

Unique holidays account for 70% of all Mainstream bookings, up three percentage points compared with this time last year, whilst online sales continue to grow, accounting for 37% of Summer holidays booked, up by three percentage points.

Specialist & Activity is closing out in line with our expectations and we continue to see strong trading in Accommodation Wholesaler with TTV up by 17%.

<u>Current Trading</u> ¹	Summer 2014			
YoY variation%	Total ASP ²	Total Sales ²	Total Customers ²	Programme sold (%)
MAINSTREAM				
UK	+1	+1	Flat	98%
Nordics	Flat	-4	-4	100%
Germany	Flat	Flat	Flat	97%
France tour operators	+3	-10	-12	98%
Other ³	Flat	+2	+1	97%
Total Mainstream	+1	Flat	-1	98%
Accommodation Wholesaler ⁴	+1	+17	+16	N/A

¹ These statistics are up to 28 September 2014 and are shown on a constant currency basis

² These statistics relate to all customers whether risk or non risk

³ Other includes Austria, Belgium, Netherlands, Poland and Switzerland

⁴ These statistics refer to online accommodation businesses only; Sales refer to total transaction value (TTV) and customers refers to roomnights

Winter 2014/15

We remain pleased with Winter 2014/15 trading. To date, approximately 38% of the overall Mainstream Winter programme has been sold, in line with this time last year.

In the UK, bookings are up 5% and average selling prices are up 2%. We continue to see strong demand for our unique holidays, which have increased by 7% and account for 84% of bookings, up three percentage points. In particular, we are seeing high demand for long-haul destinations such as Jamaica and Mexico, driven by the expansion of our 787 Dreamliner fleet. Online bookings for Winter 2014/15 are up 11%, accounting for 47% of bookings, up three percentage points on prior year. To date, approximately 34% of the Winter programme has been sold.

In the Nordics, we have reduced capacity to strengthen our competitive position in what remains a challenging trading environment. A reduction in bookings of 5% reflects capacity cuts and we are encouraged by a 2% increase in average selling prices over the same period last year. Sales of unique holidays account for 92% of bookings, in line with last year. Online bookings account for 67% of bookings, up two percentage points on prior year. To date, approximately 52% of the Winter programme has been sold.

In Germany, bookings are up 4% and average selling prices are down 3%. Our core unique holiday product continues to deliver in line with expectations. To date, approximately 37% of the Winter programme has been sold.

Accommodation Wholesaler continues to grow strongly with TTV up by 15%, driven by the Latin American and Asian markets. We remain encouraged by the trading performance in Specialist & Activity with sales up 6%.

Summer 2015

We are encouraged by the strong start to UK trading for Summer 2015, with bookings up by 11%. Average selling prices are up 2%, reflecting strong pricing in the prior year comparative. Sales of unique holidays are up 12% compared with this time last year, accounting for 84% of holidays sold to date, broadly in line with the prior year. To date 16% of the programme has been sold.

FUEL/FOREIGN EXCHANGE

Our strategy of hedging the majority of our fuel and currency requirements for future seasons, as detailed below, remains unchanged. This gives us certainty of costs when planning capacity and pricing. The following table shows the percentage of our forecast requirement that is currently hedged for Euros, US Dollars and jet fuel.

	Summer 2014	Winter 2014/15	Summer 2015
Euro	98%	89%	51%
US Dollars	97%	84%	66%
Jet Fuel	100%	86%	60%

As at 26 September 2014

For the full year, we expect a negative translation impact from the movement in the Euro and other non-Euro denominated currencies versus Sterling of approximately £40m.

OTHER RECENT DEVELOPMENTS

Given the ongoing challenging trading environment for tour operators located in the Russian and Ukrainian source markets, a provision of £27m has been booked in the fourth quarter against the loans made to our joint venture entity. This non-cash, non-underlying item will be included within "Impairment of financial assets."

As previously disclosed, during the fourth quarter agreement has been reached with the Trustees of our UK defined benefit pension schemes to make available to the members the option on retirement to exchange non-statutory future increases in their pension with a higher annual pension which increases only in line with inflation. Notification to the members of this option which will be available on their retirement occurred in September and will generate a one-off reduction in pension liabilities of c. £30m. Consistent with the similar pension transaction which concluded in the UK in the first half of this year, this non-cash credit will be included within separately disclosed items.

OUTLOOK

We are very pleased with our Summer 14 performance, especially within the UK and Germany, which are on target to deliver record profits. We also remain pleased with Winter 2014/15 trading with Mainstream bookings up by 2% and are encouraged by a strong start to UK trading for Summer 2015. In addition, Accommodation Wholesaler continues to deliver double-digit top line growth.

Strong demand for our unique holidays, as well as positive momentum in our digital transformation strategy, is helping to drive record customer satisfaction levels. Our flexible and resilient business model is enabling us to deliver sustainable, profitable growth against a backdrop of more competitive trading in

the commodity space and an increase in airline capacity. As a result of our successful strategy, we are confident of achieving full year underlying¹ operating profit growth of at least 9% on a constant currency basis², versus our previous guidance of 7% to 10%.

¹ Underlying operating profit/loss excludes separately disclosed items, acquisition related expenses, impairment of goodwill and interest and taxation of results of the Group's joint ventures and associates.

² Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result in the current and prior year

Investor and Analyst Call

A brief conference call for investors and analysts will take place today at 8.30am (BST). The dial-in arrangements for the call are as follows:

Telephone	+44 (0)1452 555 566
Participant code	1299 1805

A recording of the conference call will be available for 30 days on:

Telephone	+44 (0)1452 550 000
Participant code	1299 1805

Preliminary Results

TUI Travel will announce its preliminary results for the year ended 30 September 2014 on 4 December 2014.

Statement of proposed merger of TUI Travel and TUI AG

Further to the announcements made by TUI Travel and TUI AG on 27 June 2014 and 25 July 2014, the Independent Directors of TUI Travel and the Executive Board (Vorstand) of TUI AG announced on 15 September 2014 that they have reached agreement on the terms of a recommended all-share nil-premium merger of TUI Travel and TUI AG, which is to be implemented by way of a Scheme of Arrangement of TUI Travel. Further announcements will be made as required.

Enquiries:

Analysts & Investors

Andy Long, Director of Strategy & Investor Relations	Tel: +44 (0)1293 645 831
Tej Randhawa, Investor Relations Manager	Tel: +44 (0)1293 645 829
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Press

Lesley Allan, Corporate Communications Director	Tel: +44 (0)1293 645 790
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Michael Sandler (Hudson Sandler)	Tel: +44 (0)20 7796 4133

APPENDIX 1

Part A

Profit Estimate

Under the City Code on Takeovers and Mergers (the “**Code**”) the following statement for the year ended 30 September 2014 is treated as a profit estimate (the “**Profit Estimate**”):

“Full year underlying operating profit growth of at least 9% on a constant currency basis

1 Underlying operating profit/loss excludes separately disclosed items, acquisition related expenses, impairment of goodwill and interest and taxation of results of the TUI Travel Group’s joint ventures and associates.

2 Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result in the current and prior year.”

Notes

The Profit Estimate is based on:

- the unaudited interim results of TUI Travel for the six month period ended 31 March 2014 included in the interim results announcement issued by TUI Travel on 13 May 2014;
- the unaudited results of TUI Travel for the three month period ended 30 June 2014 included in the third quarter results announcement and interim management statement issued by TUI Travel on 8 August 2014;
- the unaudited management accounts of TUI Travel for the two month period ended 31 August 2014: and
- TUI Travel management’s estimate of the results of TUI Travel for the month ended 30 September 2014.

The basis of accounting used is consistent with the accounting policies of TUI Travel.

Reports

As required by Rule 28.1(a) of the Code, PricewaterhouseCoopers LLP, as reporting accountants to TUI Travel, have provided a report stating that, in their opinion, the Profit Estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with TUI Travel’s accounting policies. In addition Lazard & Co., Limited, as financial adviser to the Independent Directors of TUI Travel, has provided a report stating that, in its opinion, and subject to the terms of such reports, the Profit Estimate has been prepared with due care and consideration.

Copies of these reports are set out below. Each of PricewaterhouseCoopers LLP and Lazard & Co., Limited has given and not withdrawn its consent to the publication of its report in the form and context in which it is included.

Part B
Report from PricewaterhouseCoopers LLP

The Independent Directors and Peter Long
TUI Travel PLC
TUI Travel House
Crawley Business Quarter
Fleming Way
Crawley
West Sussex
RH10 9QL

Lazard & Co., Limited
50 Stratton Street
London
W1J 8LL

(the “**Financial Adviser**”)

2 October 2014

Dear Sirs

TUI Travel PLC

We report on the profit estimate made by TUI Travel PLC (the “**Company**”) and its subsidiaries (together the “**Group**”) comprising the statement of underlying operating profit at constant currency for the year ended 30 September 2014 (the “**Profit Estimate**”). The Profit Estimate and the basis on which it is prepared is set out in Appendix 1 Part A of the announcement of the Pre-Close Trading Update issued by the Company dated 2 October 2014 (the “**Announcement**”).

This report is required by Rule 28.1(a)(i) of the City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers (the “**City Code**”) and is given for the purpose of complying with that rule and for no other purpose. Accordingly, we assume no responsibility in respect of this report to TUI AG (the “**Offeror**”) or any other person connected to, or acting in concert with, the Offeror or to any other person who is seeking or may in future seek to acquire control of the Company (an “**Alternative Offeror**”) or to any other person connected to or acting in concert with an Alternative Offeror.

Responsibilities

It is the responsibility of the independent directors of the Company (the “**Independent Directors**”) to prepare the Profit Estimate in accordance with the requirements of the City Code. In preparing the Profit Estimate the Independent Directors are responsible for correcting errors that they have identified which may have arisen in unaudited financial results and unaudited management accounts used as the basis of preparation for the Profit Estimate.

It is our responsibility to form an opinion as required by Rule 28.1(a)(i) of the City Code as to the proper compilation of the Profit Estimate and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under Rule 28.1(a)(i) of the City Code to any person as and to the extent therein provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a

result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Rule 23.3(b) of the City Code, consenting to its inclusion in the Document.

Basis of Preparation of the Profit Estimate

The Profit Estimate has been prepared on the basis stated in Appendix 1 Part A of the Announcement and is based on unaudited interim results for the six months ended 31 March 2014, the unaudited results for the three months ended 30 June 2014, the unaudited management accounts for the two months ended 31 August 2014 and management's estimate for the month ended 30 September 2014. The Profit Estimate is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information for the three months ended 30 June 2014 included in the Profit Estimate has been prepared and considering whether the Profit Estimate has been accurately computed using that information and whether the basis of accounting used is consistent with the accounting policies of the Group.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Estimate has been properly compiled on the basis stated.

However, the Profit Estimate has not been audited. The actual results reported, therefore, may be affected by revisions required to accounting estimates due to changes in circumstances, the impact of unforeseen events and the correction of errors in the management accounts. Consequently we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Estimate and the difference may be material.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion, the Profit Estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business

Part C

Report from Lazard & Co., Limited

The Independent Directors
TUI Travel PLC
TUI Travel House
Crawley Business Quarter
Fleming Way
Crawley,
West Sussex
RH10 9QL

2 October 2014

Ladies and Gentlemen,

Recommended all-share nil-premium merger of TUI Travel PLC (“TUI Travel”) and TUI AG (“TUI AG”) (the “Merger”)

We report on the profit estimate made by TUI Travel in the announcement dated 2 October 2014 comprising an estimate of the underlying operating profit at constant currency for the year ended 30 September 2014 (the “Profit Estimate”). The Profit Estimate and the basis on which it is prepared is set out in Appendix 1 Part A of the announcement of the Pre-Close Trading Update issued by the Company dated 2 October 2014 (the “Announcement”).

We have discussed the Profit Estimate and the bases and assumptions on which it has been prepared with you as directors of TUI Travel, the senior management of TUI Travel and with PwC, TUI Travel’s auditors. We have assumed with your consent that the Profit Estimate reflects the best currently available estimates and judgments of the management of TUI Travel for the period to which it relates. We have also discussed the accounting policies and bases of calculation for the Profit Estimate with the directors and the senior management of TUI Travel and with PwC. We have also considered PwC’s report of today’s date addressed to you and us on this matter. You have confirmed to us that all information relevant to the Profit Estimate has been disclosed to us.

For purposes of rendering this letter, we have, with your consent, relied upon and assumed the accuracy and completeness of all the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or review by, us, without any independent verification thereof.

On the basis of the foregoing, we consider that the Profit Estimate, for which you as directors of TUI Travel are solely responsible, has been made with due care and consideration.

This letter is provided to you solely in connection with Rule 28.1(a)(ii) of the City Code on Takeovers and Mergers (the “Code”) and for no other purpose. We are acting exclusively as financial adviser to the independent directors of TUI Travel and no one else in connection with the Merger; no person other than the independent directors of TUI Travel can rely on the contents of this letter and, to the fullest extent permitted by law, we assume no responsibility and will not accept any liability to any person other than the independent directors of TUI Travel in respect of this letter or the work undertaken by us in connection with this letter.

This letter is not an opinion regarding, and we express no view as to, the reasonableness or achievability of the TUI Travel Profit Estimate. Instead, this letter will address solely the matters required to be addressed by Rule 28.1(a)(ii) of the Code and does not address any other matter; it does not address, among other things, the relative merits of the Merger as compared to any other transaction or business strategy, the merits of the decision by TUI Travel to engage in the Merger, the fairness to TUI Travel shareholders of the exchange ratio in the Merger, or the price at which TUI Travel’s shares or the shares of TUI AG would trade at any time.

Furthermore, this letter has been prepared independent of publication of the Profit Estimate and may not be relied on by you in recommending that TUI Travel shareholders vote to approve the Merger. This letter is not intended to and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act with respect to the Merger or any matter related thereto.

Yours faithfully,

Lazard & Co., Limited