# Speech

## Friedrich Joussen

## CEO TUI Group

## at the Annual General Meeting

## on 14 February 2017

## - Check against delivery -

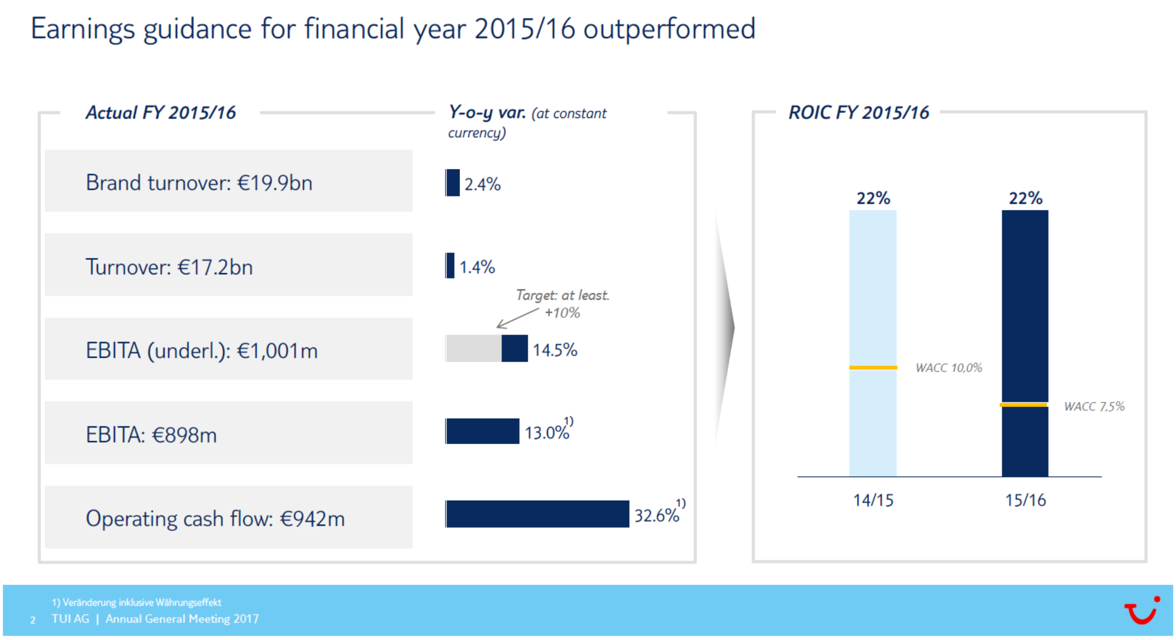
## Slide 1: Title slide


Good morning, shareholders, ladies and gentlemen, welcome to TUI's Annual General Meeting at TUI Arena in Hanover.

Following Professor Mangold's speech, I will now present an overview of the completed financial year 2015/16 and an outlook for the current year. I will also share my assessment regarding our Company's key opportunities and risks with you.

Undoubtedly, 2016 was a very challenging year – not just for us, but for the entire tourism sector. The geopolitical situation in North Africa and Turkey required great flexibility and fast decision-making at all levels of our organisation. Let us take Turkey, our traditional number three destination, as an example. Customer numbers in Turkey declined from around 2 million to less than 1 million. Our new international management team cooperated very well. And our employees in the markets were excellent ambassadors of our Company and hosts for our customers, even in a difficult environment. TUI addressed the challenges as a team, and was successful as a team. This sense of overall awareness and the active contribution by every individual – this is what we aspire and how we see ourselves as the new TUI. I am grateful to every single employee – for their performance, professionalism, loyalty and team spirit.

## Slide 2: Earnings guidance for financial year 2015/16 outperformed




Let me now start by looking back upon the completed financial year. We continued to deliver significant growth in our operating result in year 2 after the merger between TUI and TUI Travel. Our underlying EBITA grew by 14.5% at constant currency to more than 1 billion euros. Just as last year, its growth thus considerably outperformed the 10 per cent guidance we had communicated to the financial markets.

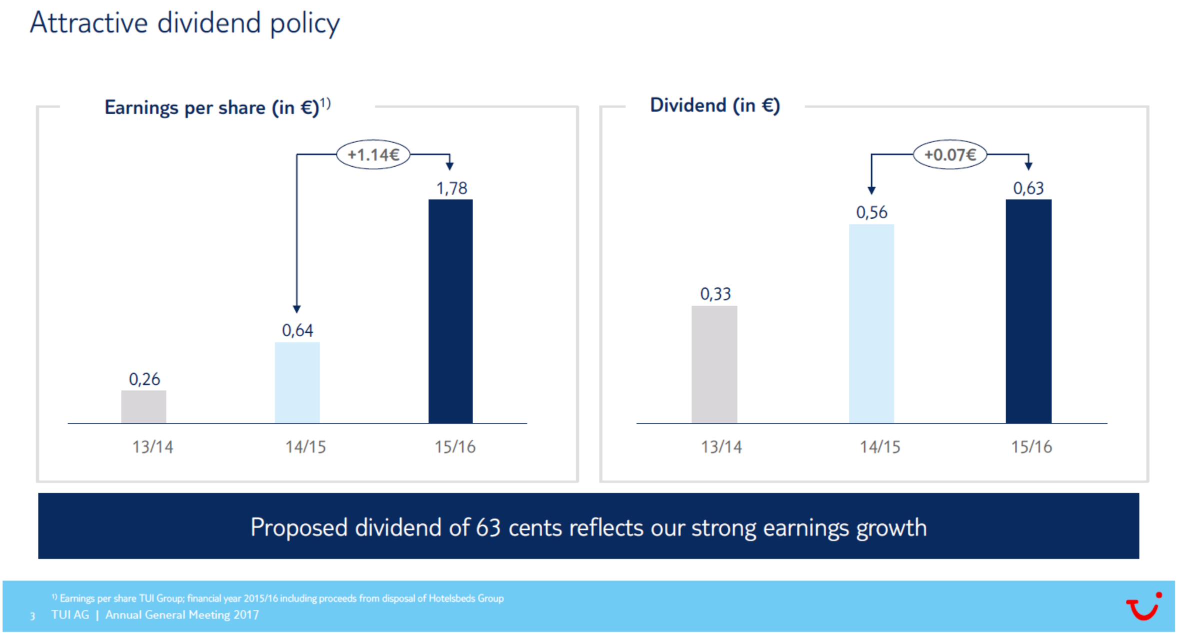
At constant currency, we also delivered turnover growth of 1.4 per cent to 17.2 billion euros. At last year's Annual General Meeting, I had already explained the concept of brand turnover. It is made up of consolidated turnover plus non-consolidated turnover of our fast-growing Group subsidiaries TUI Cruises and

Sunwing in Canada. In the completed financial year, this brand turnover grew by 2.4% year-on-year.

The transformation of our TUI from a pure tour operator to an integrated tourism group – I will come back to this transformation and the current state of play later – will entail significant investments in hotels and cruise ships. Of course, we also aim to continue to pay you an appropriately attractive dividend. It is therefore important to ensure that our successful economic performance is also reflected in our operative cash flow, which was the case in the completed financial year. In financial year 15/16, our operating cash flow totalled 942 million euros.

Our Return on Invested Capital, the key indicator for the efficiency of our investments, constantly stood at 22%, considerably exceeding our capital costs. This means that TUI now stands for disciplined, profitable growth.

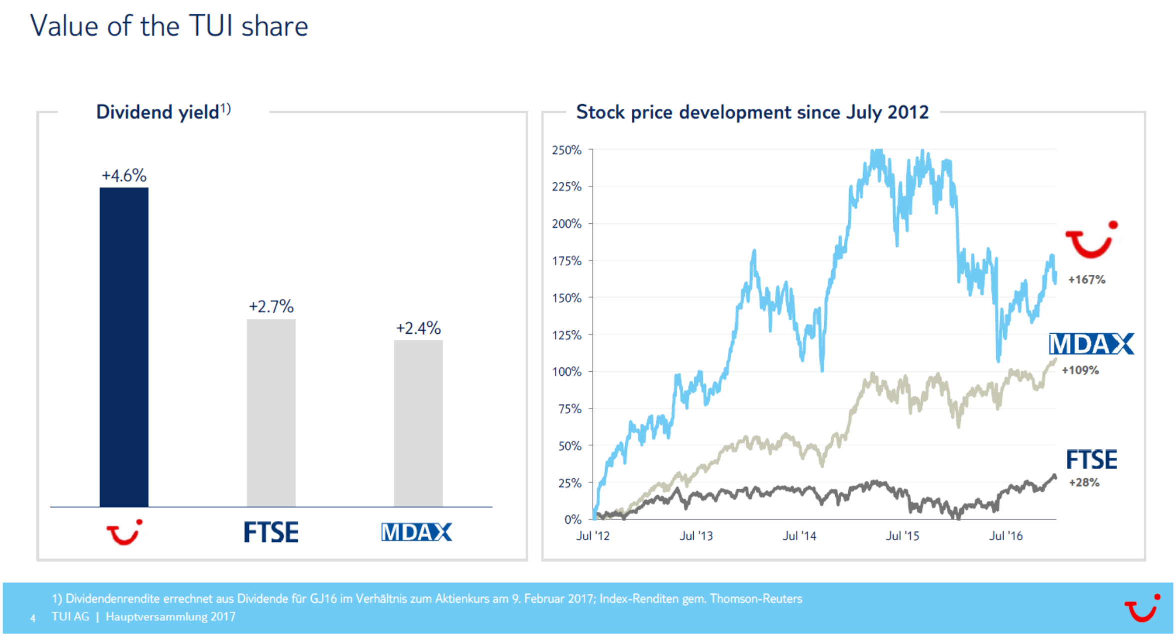
## Slide 3: Attractive dividend policy




Let me now turn to earnings per share, which rose by 1.14 euros year-on-year to 1.78 euros. This high amount includes the effects of the extraordinarily successful disposal of our Hotelbeds segment.

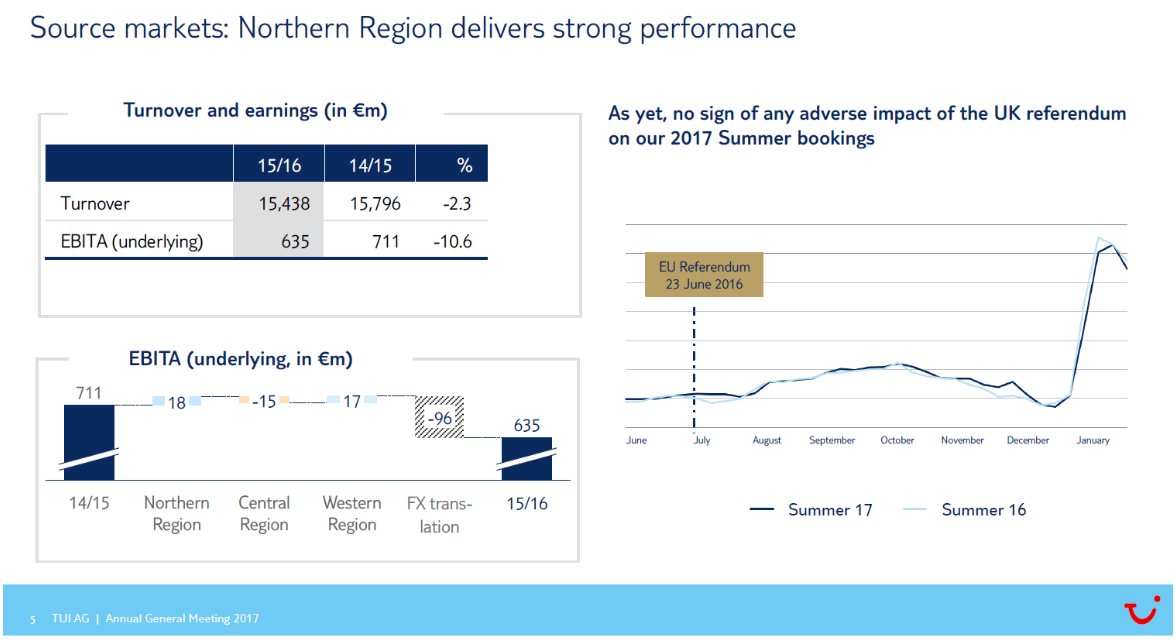
We would therefore like to propose a dividend of 63 euro cents per share. This is an increase of 7 euro cents. Last year, the dividend amounted to 56 euro cents per share.

## Slide 4: Value of the TUI share




Ladies and Gentlemen, the next slide shows that our dividend is and remains very attractive compared with other MDaX and FTSE companies. On the right-hand side, it shows that the development of our share price was relatively subdued in the course of the year, in line with the performance of other shares in our sector, due to the deterioration of the geopolitical environment, but that nevertheless the long-term performance of our shares beats the relevant share indices. Total Shareholder Return, comprised of both components, remains very attractive for you, our shareholders.

## Slide 5: Source markets: Northern Region delivers strong performance




Let me now comment on the economic performance of the individual business segments.

Earnings by our source markets declined by 10.6% from 711 million euros to 635 million euros. The strongest driver of this development is a non-operational foreign exchange translation effect. As we generate turnover and earnings in £ in the UK and subsequently translate them into € in the framework of our reporting, the weakening of the sterling exchange rate had a negative impact worth 96 million euros. As already said, this is a purely arithmetic effect, not a real effect.

Excluding this effect, our source markets would have posted a positive performance and we would have reported an increase in our EBITA of 20 million euros from 711 million euros to 731 million euros.

The Nordics, Sweden, Norway, Finland and Denmark reported a decline in bookings and margins, driven in particular by lower demand to Turkey. Nevertheless, Northern Region delivered a positive performance overall, primarily driven by the strong performance in the UK and the reduction in losses in Russia.

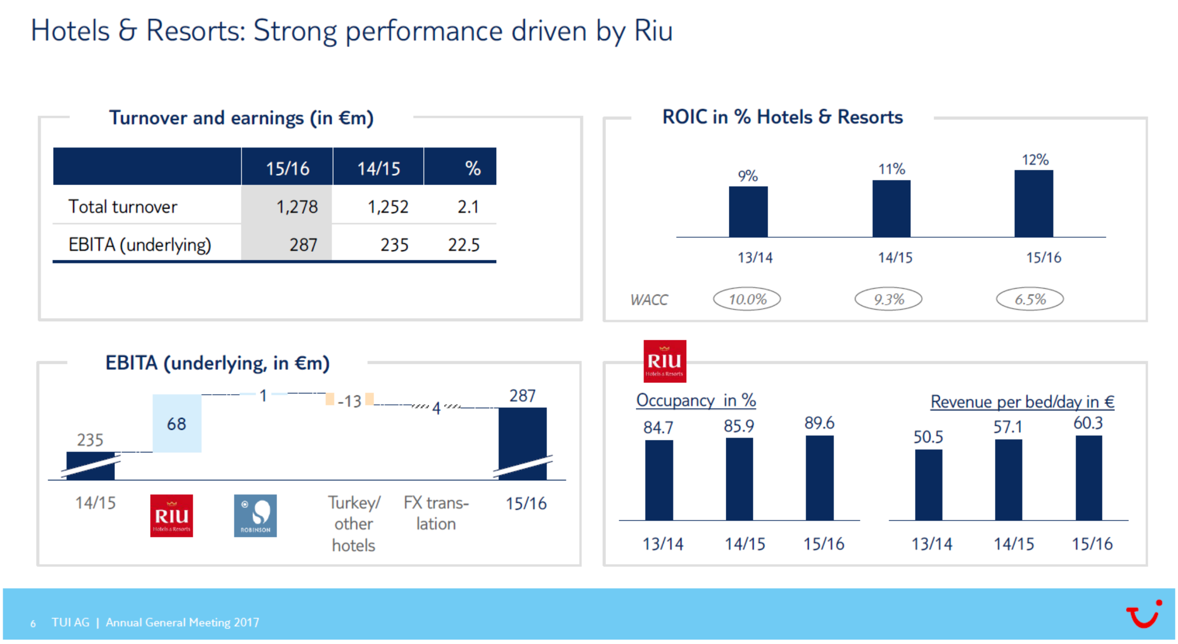
Incidentally, the right hand side of the chart shows Summer 2017 bookings (dark blue) in the UK before and after the referendum compared with Summer 2016 bookings (light blue), one year earlier. The referendum, at least, did not impact people's consumer and travel behaviour.

In her speech in mid-January, British Prime Minister May did not unveil any details regarding the actual Brexit plans. Nevertheless, I hope that the process will lead to a good solution. After all, vital trade relationships with the UK are in the interest of the EU and UK alike. Free trade and free movement for workers are major achievements. They have created wealth and made Europe more secure. It is now up to the political figures to preserve as many achievements as possible. However, I am convinced that Brexit, regardless of its specific type, will not stop British holidaymakers from travelling in the long term.

**Central Region** also reported a decline in earnings due to the development of demand for Turkey and considerable overcapacity in aviation. Last year, I had estimated that the turnaround in Germany was going to take 3 to 5 years. We reiterate that timeframe. The first steps have successfully been implemented. As a result, we recovered lost ground and gained market share in Germany.

Within **Western Region,** the Netherlands and France delivered a strong performance. In the Netherlands, this positive development is so important because this is where we launched our first rebrand from Arke to TUI a year ago. In Belgium and the Nordics, incidentally, the rebrand initiatives are currently being rolled out very successfully. In France, we managed to considerably reduce our losses. This was also one of the core goals I commented on at last year's AGM. If we take our tour operation business and our airline Corsair together, France even delivered a balanced result. Earnings only declined in Belgium, where flight operations in Brussels, which are crucial for our Belgian airline, were significantly impacted for a long time following a terrorist attack.

## Slide 6: Hotels & Resorts: Strong performance driven by Riu




In Hotels & Resorts, we increased our earnings by 22.5% from 235 million euros to 287 million euros. ROIC grew from 10.5% to 12.3%, significantly ahead of our capital cost of 6.5%.

The main driver of the strong performance was our RIU Group, above all due to 2 effects. On the one hand, our business in the Caribbean is playing an increasingly important role. On the other hand, rates per overnight stay were

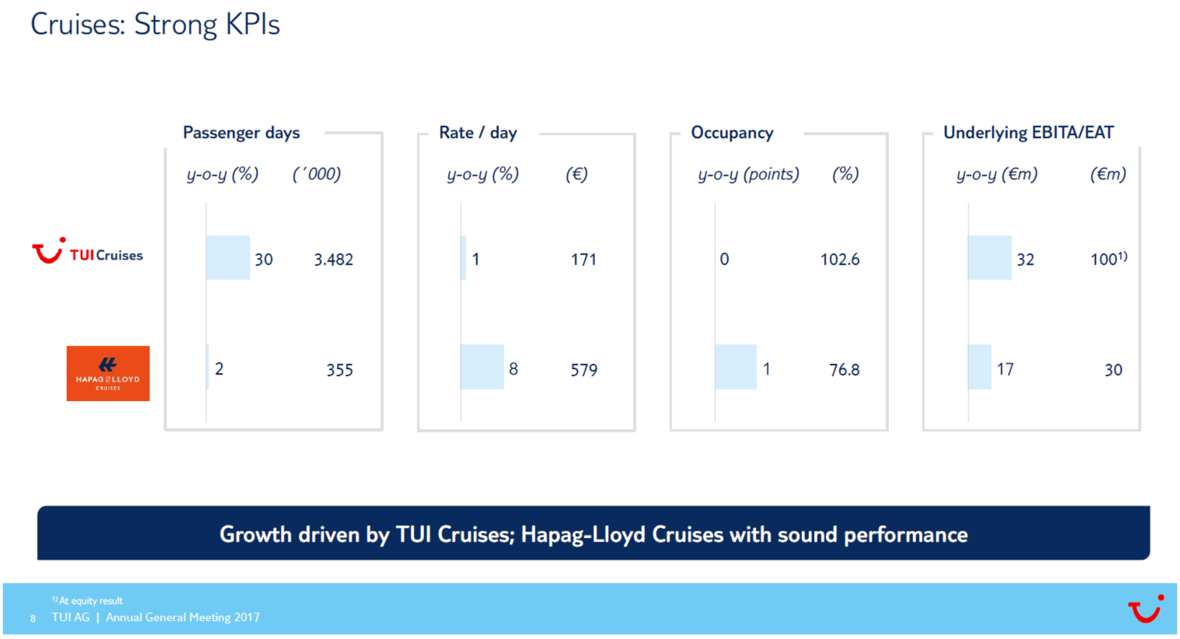
very high, growing by more than 3 euros. Within the same period, occupancy grew by 3.5%, driven by very strong demand for holiday destinations in the western Mediterranean, in particular in Spain.
Robinson delivered constant earnings in the course of the year. The positive effects in Spain were more or less offset by the negative effects affecting our clubs in Turkey. We took a number of key steps for further growth this year thanks to our investments, above all in South East Asia.
At minus 13 million euros versus the prior year, the "Turkey/Other hotels" segment was impacted by negative effects in our hotel groups in Tunisia and Turkey. These effects will probably impact our earnings once again this year.

## Slide 7: Cruises: TUI Cruises with strong earnings growth


Ladies and Gentlemen, Cruises is and remains a highly attractive market for the future, above all in Europe, where our business continued to show a particularly gratifying development in 2015/16. Our earnings climbed by 60.5% year-on-year from 81 million euros to 130 million euros. Brand turnover by Cruises grew by 24.4% year-on-year from 887 million euros to 1.1 billion euros within one year. The earnings growth was attributable both to Hapag Lloyd

Cruises at 17 million euros and TUI Cruises at 32 million euros. This shows that ROIC, a key indicator, is very high at 21.3%, significantly exceeding the specific capital costs in the segment.

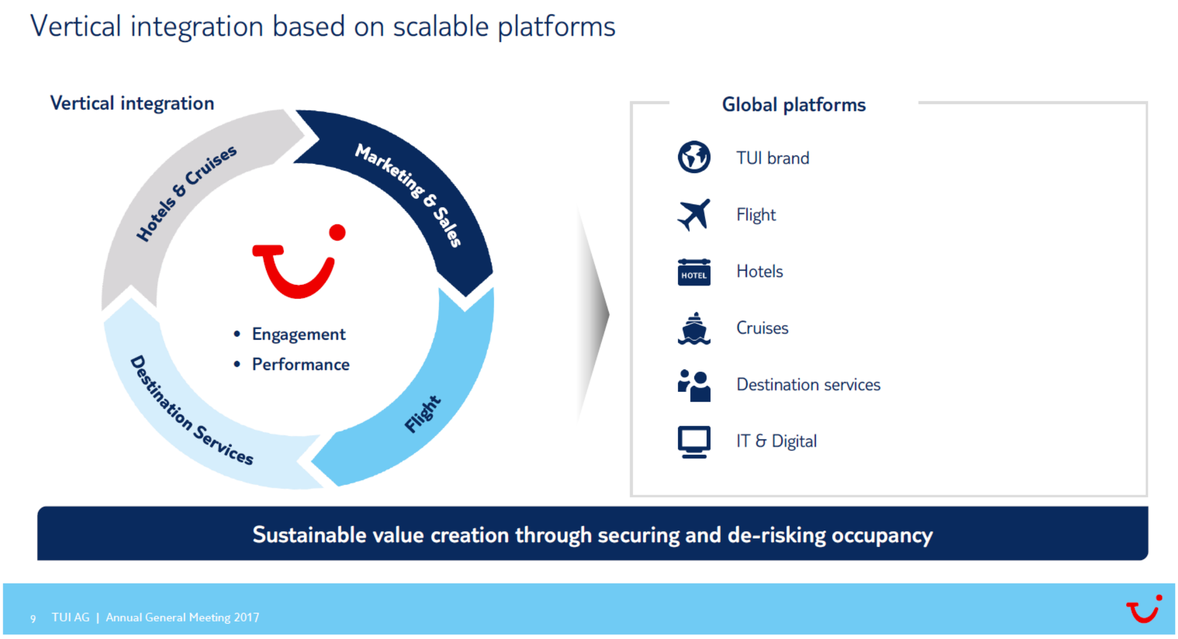
## Slide 8: Cruises: Strong KPIs




An analysis of the earnings growth reported by the segment shows that Hapag Lloyd Cruises increased its turnover and earnings at constant capacity, i.e. exclusively through the 8% increase in rates and the 1% increase in occupancy.

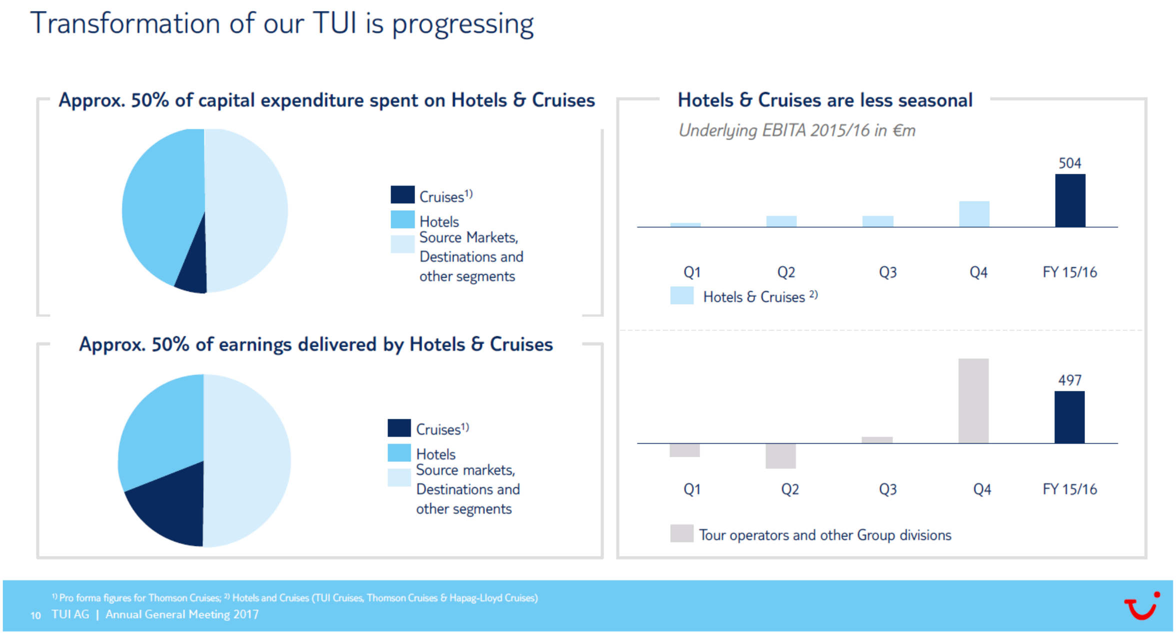
TUI Cruises also delivered a successful performance, albeit driven by different factors. As you can see on the slide, total capacity was expanded by a further 30% with the launch of the new Mein Schiff 5. This means that capacity grew considerably. Nevertheless, we managed to retain both occupancy and rates at their high levels.

## Slide 9: Vertical integration based on scalable platforms




Ladies and Gentlemen, Let me now comment on our strategy again. The idea resulting in the merger with TUI Travel two years ago was vertical integration based on global scalable platforms. I will come back to the aspect of global platforms later. However, vertical integration may form the basis for sustainable value creation – both in general and in the tourism sector in particular. Vertical integration works in our market, as we focus investments primarily on hotels and cruise ships and subsequently secure these investments by controlling sales and marketing in the source markets. The key risk related to these investments, a potential occupancy risk, is thus reduced significantly.

## Slide 10: Transformation of our TUI is progressing




Of course, in implementing our strategy, our investments largely focus on hotels and ships. Consequently, the proportion of earnings by these hotels and cruises is also becoming increasingly important. More than 50% of our earnings are already delivered by hotels and cruises.

These earnings shares offer a number of advantages. On the one hand, they generate more cash, i.e. stronger liquidity. On the other hand, they are considerably less seasonal over the year. In tour operation, our margins are negative for two quarters, more or less balanced in Q3, and we then earn all our money in Q4. This has a strong impact on our liquidity. Our so-called working capital fluctuates by around 1.3 billion euros in the course of the financial year. Earnings by our hotels and cruise businesses are generated far more evenly throughout the year, with positive earnings delivered every quarter. Both effects will lead to an enhanced valuation of our Company in the long term. They create value for you, and greater freedom to invest and hence a better future for our Company.

## Slide 11: Successful disposal of Hotelbeds Group in FY 2015/16

### Successful disposal of Hotelbeds Group in FY 2015/16

**hotelbeds GROUP**

- Hotelbeds Group was sold at very attractive terms and conditions
- The cash proceeds was significantly higher than expected

**TRAVELOPIA**

- The agreement to sell our specialist tour operation business was signed on 13 February 2017
- We have achieved attractive disposal proceeds
- The disposal marks a further key step in TUI Group's strategic development

**Hapag-Lloyd**

- Additional potential relates to the disposal of our stake in Hapag Lloyd AG
- Our stake is now valued at a share price of around €28; at the IPO, the share price stood at €20, at the end of the previous financial year it was slightly more than €16
- Our consolidation projects with CSAV and UASC create value. We therefore support these projects.

**Financing our transformation through disposal of non-core areas**

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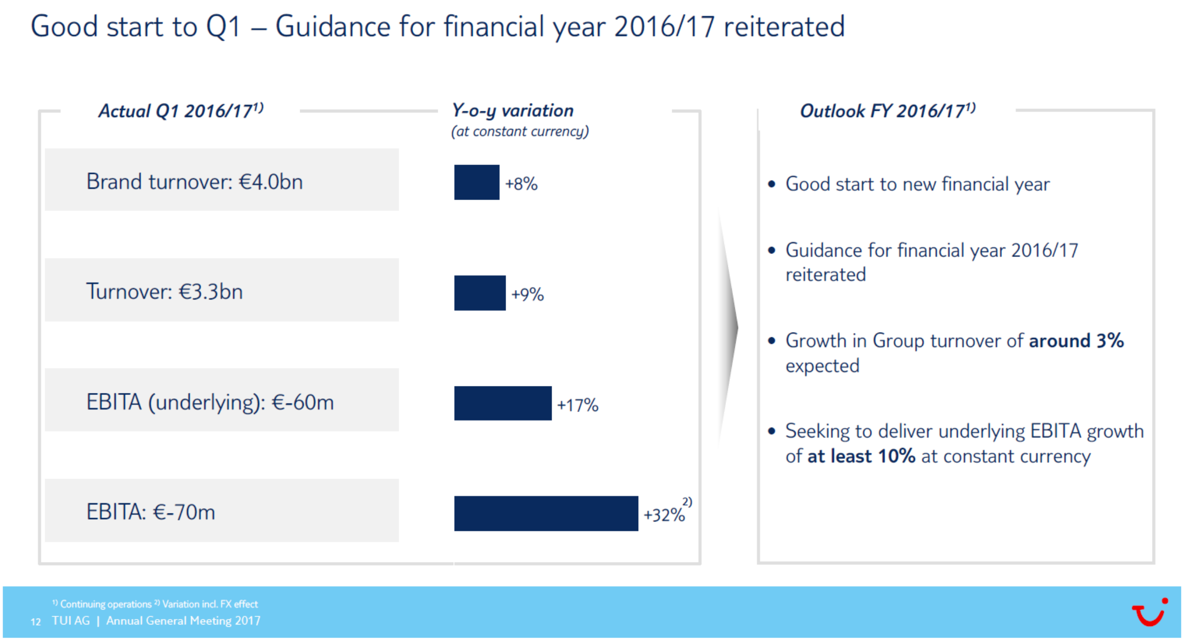
Most of the resources used to fund the investments required for our transformation stem from the disposal of companies that do not form part of our vertically integrated company, i.e. only offer minor synergies within TUI Group. This is another area where we have made substantial progress. We have sold Hotelbeds Group at very attractive terms and conditions. The cash proceeds significantly exceeded our expectations. We successfully completed the disposal of our specialist tour operation business last night. The price was based on an enterprise value of 381 million euros, i.e. a multiple of more than 14 times EBITA. Our share is currently traded at a multiple of just under 10. This means that the transaction creates value. Further potential is offered by the sale of our stake in Hapag Lloyd AG. The Hapag-Lloyd share now trades at around 28 euros, up from 20 euros at the time of the IPO and just over 16 euros at the balance sheet date. The consolidation projects with CSAV and now with UASC create value, and we therefore support them. We will see how long it will take us to deliver this value. However, we believe that time is on our side.

## Slide 12: Good start to Q1 – Guidance for financial year 2016/17 reiterated




Let me now present an outlook on the current financial year. We have started off very well into the first quarter. Our brand turnover grew by 8% to 4.0 billion euros at constant currency, with turnover up 9% to 3.3 billion euros. At -70 million euros, our operating result was 32% up year-on-year although we were impacted by the cost of the flight cancellations in TUIFLY in the autumn break and the continued negative impact from the situation in North Africa. Based on our strong performance in Q1, we therefore reiterate our guidance for the full year of delivering turnover growth of
around 3% and earnings growth of at least 10%.

## Slide 13: Our new TUI is considerably more attractive for our employees

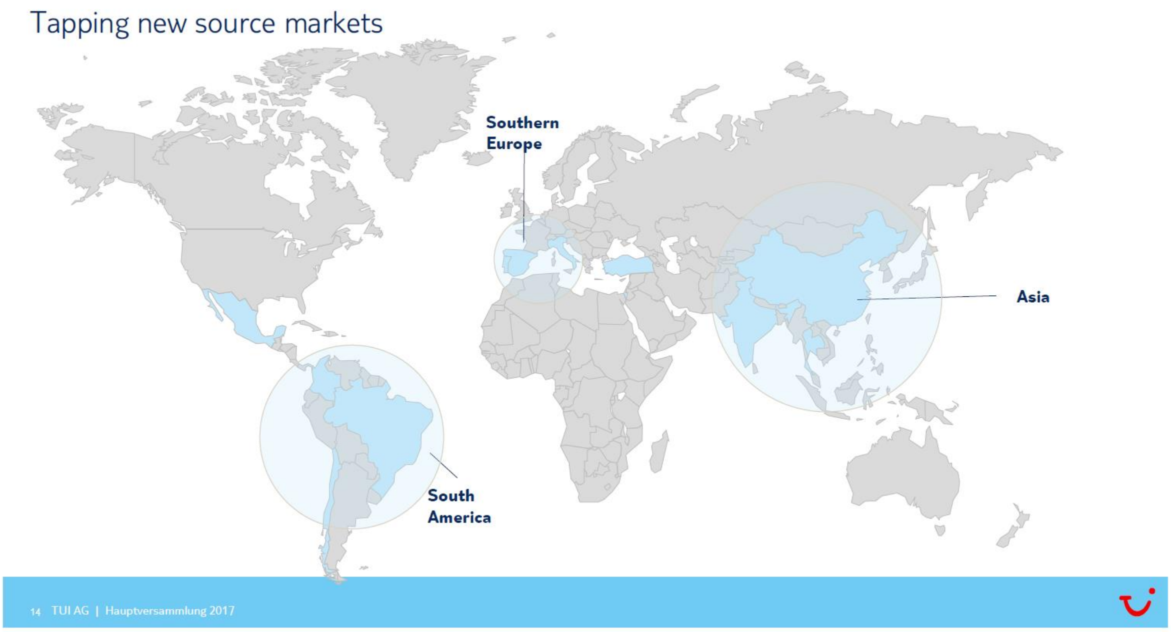

Ladies and Gentlemen, A services company, in particular, is only able to occupy a market-leading position if it has the best and most engaged staff. TUI is an attractive employer, as has repeatedly been shown by independent rankings. Nevertheless we are working every day to further enhance our employees' engagement. Only employees who trust their leadership, understand their company's strategy and know how to personally contribute to the success of the company will show above-average engagement.

In the wake of the merger between TUI and TUI Travel, structures, responsibilities and our strategy were changed. Management was and remains responsible to explain the changes and encourage employees to support them. Last year, I alone visited each of our big business entities at least twice at the occasion of Employees' Days. I met management teams, junior managers and many employees at townhall meetings and held intensive discussions with all of them about our vision, our values and our strategy.

The success of these efforts has now also been reflected in the results of our employee survey. Every year, we measure the results. The response rate grew by 11 percentage points to 77%, while engagement grew by 4 percentage points to 77%. This was primarily driven by better understanding of the vision, values and strategy.

We have also launched a unified leadership model, explaining to our executives how leadership is to work in our Company, i.e. how we want to cooperate with our employees. Let me be clear: this is not merely a matter of pure well-being, but rather our conviction that people will only accept change and get involved in shaping it if leadership works. We therefore do not leave this crucial topic to chance. Engaged staff and strong executives are enormously important for us. We are a company that only lives through these them, they are our brand, they enable our customers to experience TUI.

## Slide 14: Tapping new source markets




Ladies and Gentlemen, By way of conclusion, let me end on some comments regarding the future. Where is TUI heading? Where will we generate future growth?

Of course, we are aiming to remain successful in our traditional markets and businesses and expand them further. Our hotel and cruise activities drive transformation and, of course, growth.

However, how about the many markets in which we are not yet genuinely operating as a tour operator? This group of markets comprises key countries, e.g. in southern Europe. We already know many of these countries, first and foremost as destinations. However, people in these countries also want to travel.

In the long term, the emerging economies in Asia or the countries in southern America are probably even more promising. They might play a major role to secure occupancy of our hotels, e.g. in the Caribbean. These are regions with rapidly growing middle classes, where more and more people enjoy greater prosperity and discover travel. By 2030, the global middle classes will grow by two billion people. These are two billion people gaining new opportunities to travel and discover the world thanks to growing prosperity.

That is why market entry, e.g. in China, offers enormous opportunities. The population forecast for China for 2022 is more than 1.4 billion. Last year, almost 50 million Chinese travelled abroad – mostly on private tours.

### Slide 15: Tapping new source markets


This forms the basis for our "TUI2022" plan, which is about nothing more and nothing less than global expansion of our brand. The new Executive Board function assumed by Frank Rosenberger entails responsibility for its implementation. It comprises responsibility for the new markets but also overall responsibility for Digital and IT. Why have we decided to set up this function?

Our business is not comparable with other sectors and branches selling their product in Asia. Tourism is all about service and services. Margins are correspondingly low. High upfront costs for market entry must not be required. Many trading companies, more comparable with us, have launched with great fanfare, in particular in China, and ended up getting a bloody nose. This should and must not happen to us.

In order to ensure that this will not happen, we will develop our business in these markets differently than we did in the traditional European markets decades ago. In these countries, we will have to achieve market entry on the basis of standardised, globally scalable, uniform software architecture in order to significantly enhance our market entry opportunities.

We have used the past two years in order to consistently digitalise our business. We have now reached a stage where all customer data is produced in a unified format. This ensures that we have this data available anytime and anywhere across the entire value chain. CRM and yield systems have been or will be fully harmonised. This will further enhance and focus our customer communication campaigns and the pricing of our offerings on the basis of unified, high quality criteria. All mobile apps produced by our tour operators have meanwhile been programmed in a single unified architecture. When we introduce a new function, it will always immediately be available to all customers. Our workflows have been largely digitalised and standardised. Our platforms are globally scalable and thus form a sound basis for further expansion.

## Slide 16: Tapping new source markets


Regarding Frank Rosenberger, let me tell you that I have known him for more than 20 years. In the course of his professional career, he has managed large business divisions but also driven digital transformation activities ahead globally. He is the right person in the right place! We have jointly developed our "TUI 2022" plan for TUI, to be implemented within the next five years. We are planning to achieve 1 billion euros worth of additional turnover with 1 million new customers. This is a realistic, ambitious goal.

## Slide 17: Final slide


Shareholders, ladies and gentlemen, By way of conclusion let me tell you that in the first two years post-merger, we have shown that we deliver on our promises. We have achieved good double-digit earnings growth. Our Group has now reached a position of strength enabling us to reliably pay attractive dividends while investing considerable amounts into the transformation of our TUI.

We already generate 50% of our earnings from hotels and cruises. The future of our TUI will entail the consistent further expansion of these businesses. On the other hand, it will require capturing new growth markets. Our "TUI 2022" plan sets the strategic framework for our future.

A company can only be successful in the long term if it enjoys the trust of its customers, employees and shareholders alike. More than two years ago, you supported the formation of the new TUI with an overwhelming majority. Since then, you have followed and supported our development. Our entire team works to ensure that the trust placed in us will also be justified in future. Thank you very much!