

**Report of the Executive Board
to the extraordinary Annual General Meeting of TUI AG held on 5 January 2021
regarding the partial utilisation of the authorisation granted by the Annual General
Meeting of 9 February 2016 to issue convertible bonds and/or bonds with warrants
including the authorisation to disapply shareholders' pre-emption rights**

I.

Due to the resolution adopted by the Annual General Meeting of TUI AG, Hanover and Berlin (the **Company**), under agenda item 8 on 9 February 2016, the Executive Board of the Company was authorised, subject to the consent of the Supervisory Board, to issue registered or bearer convertible bonds, bonds with warrants, profit-sharing rights or income bonds (or combinations thereof) (each the **Bonds**) with a total nominal amount of up to € 2,000,000,000.00 (in words: Euro two billion) once or several times until and including 8 February 2021 and to grant holders and creditors of Bonds conversion or warrant rights to Company shares representing a pro rata amount of the share capital of up to € 150,000,000.00 (in words: Euro one hundred fifty million), in accordance with the terms and conditions of the Bonds or to attach conversion or warrant obligations to these Bonds (the **2016 Authorisation**). The Bonds and the conversion or warrant rights or obligations may be issued with or without a fixed maturity. The Bonds may also be issued in return for contributions in kind. The 2016 Authorisation provides that the conversion or warrant price is either (if pre-emption rights are disapplied) at least 60% of the average closing price of the Company's shares on the Frankfurt Stock Exchange (Xetra trading) or the depositary interests representing the shares at the London Stock Exchange during the ten trading days prior to the day on which the resolution on issuing Bonds is passed by the Executive Board or (if pre-emption rights are granted) at least 60% of the average closing price of the Company's shares on the Frankfurt Stock Exchange (Xetra trading) or the depositary interests representing the shares at the London Stock Exchange during the subscription period, with the exception of any days in the subscription period that are required in order that the conversion or warrant price can be published on time in accordance with section 186(2) sentence 2 of the German Stock Corporation Act (*Aktiengesetz* - "AktG").

Under the 2016 Authorisation, the Executive Board is further authorised to disapply shareholders' pre-emption rights to the Bonds, subject to the consent of the Supervisory Board, insofar as Bonds with conversion or warrant rights or obligations are issued for cash and the issue price is not substantially lower than the theoretical market value of the Bonds calculated on the basis of acknowledged methods of financial mathematics, provided that this applies only insofar as the shares to be issued in order to service the conversion or warrant rights or obligations under the Bonds do not exceed 10% of the share capital in total neither at the time the authorisation is resolved nor at the time it is exercised, if this value is lower (the **Limit**). The above authorised volume of 10% of the share capital is to be reduced by the proportion of the share capital represented by shares, or to which conversion or warrant rights or obligations under any Bonds relate which were issued or sold on or after 9 February 2016 subject to the disapplication of pre-emption rights by applying section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz* - "AktG") directly, analogously or *mutatis mutandis*.

II.

Since the beginning of and due to the Corona virus pandemic, the Company has been, and continues to be, in a financially challenging situation and was in a high need for liquidity, in particular at the time the Recapitalisation Measure (as defined below) was agreed on, due to the impact of the Coronavirus pandemic. Against this background, the Company agreed, in March/April 2020 already, on a credit line with the KfW in the amount of EUR 1,800,000,000 under the KfW's "Direct equity investment in structured financing schemes" ("Direktbeteiligung für Konsortialfinanzierung") special programme (855). This KfW credit line was granted as an additional facility under the Company's existing Revolving Credit Facilities Agreement (**Facility C**). Due to the continuing and repeated restrictions and the usual seasonal slowdown in its business, the Company was in additional need for funding beyond the originally agreed Facility C. At the time the Recapitalisation Measure (as defined below) was agreed, the Company was not able to identify any sufficiently promising (alternative) financing options on the market other than state aid that would have been available in the short term. The Company's continued existence was at risk when not taking measures to cover the increased need for liquidity determined by the Company.

Against this background, intense negotiations have taken place with the German Federal Ministry of Finance, the Federal Ministry for Economic Affairs and Energy, the KfW and the German Economic Stabilisation Fund (*Wirtschaftsstabilisierungsfonds* - **WSF**), represented by the Bundesrepublik Deutschland – Finanzagentur GmbH, on an additional stabilisation package in the total amount of EUR 1,200,000,000 including a potential recapitalisation measure under the German Stabilisation Fund Act (*Stabilisierungsfondsgesetz*). This additional stabilisation package aimed at overcoming liquidity shortages and reinforcing the Company's capital base in order to ensure the continuation of its operations despite the continued challenges posed by the Corona virus pandemic. On 12 August 2020, the Company and the German Federal Ministry of Finance, the Ministry for Economic Affairs and Energy, the WSF and the KfW agreed on the key terms of this stabilisation package under two binding term sheets (the **Term Sheets**), which essentially consisted of two components:

The first component was the increase of Facility C from its initial amount of EUR 1,800,000,000 by EUR 1,050,000,000 (the **Increase Amount**) to EUR 2,850,000,000. This increase has been implemented by a revision of the Facilities Agreement, which became effective on 13 August 2020. The revised Facilities Agreement provided that the Increase Amount may be utilised only if (in addition to other conditions) an equity linked instrument in the amount of EUR 150,000,000 has been issued for the benefit of the WSF and the WSF has made the relevant payment under this equity linked instrument. It was further agreed that the Increase Amount would automatically no longer have been available if the Company had not committed by 30 September 2020 to issue the equity linked instrument or if the equity linked instrument had not been issued by 5 October 2020 or if the Company had not received the corresponding payments from the WSF by that date (5 October 2020). The equity linked instrument for the purposes of the Facilities Agreement was a EUR 150,000,000 equity linked instrument in the form as agreed between TUI and the WSF.

The second component was the equity linked instrument, which, as required under the Term Sheet, was to be implemented by issuing a convertible bond or, under certain conditions also including an assessment for state aid purposes, a bond with warrants in the amount of EUR 150,000,000 to the WSF in connection with a recapitalisation measure pursuant to

section 22 of the Stabilisation Fund Act, at specific economic conditions provided for in the Term Sheet. The purpose of this instrument was to grant the WSF the right, subject to the provisions of the Term Sheet, to subscribe for new shares of the Company in the amount of up to 10% of its existing share capital at the minimum issue price permitted under stock corporation law. This pre-emption right was part of the risk reward to the federation (acting through the WSF and the KfW) and, as such, a requirement for providing the Increase Amount and, in the aggregate, for granting the additional stabilisation measure in the amount of EUR 1,200,000,000, resulting in a total exposure of public bodies in the amount of EUR 3,000,000,000.

It was ultimately agreed on this basis, and after concluding the Term Sheets, to issue the instrument by subscribing for subordinated Bonds with the legally independent and separate option to acquire shares of the Company (the **Recapitalisation Measure**).

In addition, as a requirement for issuing the instrument, a master agreement for the stabilisation measure had to be concluded between the WSF and TUI (the **Master Agreement**), which contractually implemented, in particular, the necessary conditions and requirements under the Stabilisation Fund Act, the related implementing ordinance and European law. The form of the instrument described above was advantageous insofar as it was agreed with the WSF that (i) the federation would not itself exercise the options; and (ii) certain requirements would no longer be applicable as soon as the subordinated Bond has been repaid.

III.

As published in the German Federal Gazette (*Bundesanzeiger*) on 2 October 2020, in order to implement the Recapitalisation Measure and thus to release the Increase Amount under Facility C, the Company's Executive Board resolved on 29 September 2020, with the Supervisory Board's consent of same date, to utilise the 2016 Authorisation to issue a Warrant Bond to the WSF, disapplying shareholders' pre-emption rights.

The Warrant Bond is subordinate, has a total nominal amount of EUR 150,000,000.00, divided into 1,500 partial bonds of EUR 100,000.00 each, and provides for fixed annual interest of 9.5% and a term of six years ending on 30 September 2026 (the **2020 Warrant Bond**). Together with the 2020 Warrant Bond, the Company issued a total of 58,674,899 bearer Warrants with a term of ten years ending on 30 September 2030. The bearer Warrants were detached from the 2020 Warrant Bond on 15 October 2020 and may be transferred separately since that date. In accordance with the Warrant Conditions, each holder of a bearer Warrant has the right to subscribe for one ordinary share of the Company in return for payment of the Option Price. The initial Option Price is equal to the minimum issue price pursuant to section 9(1) of the German Stock Corporation Act (*Aktiengesetz* - "AktG") of approximately EUR 2.56. The maximum number of 58,674,899 shares to be subscribed for corresponds to nearly 10% of the current share capital. The bearer Warrants are backed by the Conditional Capital 2016 according to the Company's Charter.

The minutes of the Annual General Meeting held on 9 February 2016, which also include the wording of the 2016 Authorisation, the resolutions adopted by the Executive Board and the Supervisory Board to issue the 2020 Warrant Bond, and a notice on the issue of the 2020 Warrant Bond, have been filed with the commercial registers maintained by the Berlin Local Court (*Amtsgericht Berlin*), HRB 321, and the Hanover Local Court (*Amtsgericht Hannover*), HRB 6580.

IV.

Before issuing the 2020 Warrant Bond and the bearer warrants, the Executive Board considered the conditions for, and the appropriateness and reasonableness of, their issue. In their considerations, the Executive Board and the Supervisory Board concluded that the issue of the 2020 Warrant Bond and of the bearer Warrants to the WSF at the terms and conditions agreed on and with shareholders' pre-emption rights disapplied was in the Company's interest. In the Executive Board's assessment, more beneficial alternative sources of funding that offered the same level of transaction security were not available to the Company. In the then market environment and within the narrow timeframe remaining to overcome the then liquidity shortage and to avoid insolvency in the mid-term, such issue offered the only realistic funding option that ensured the Company's liquidity and enabled the continued implementation of its business strategy, in the interest of both the Company and its stakeholders. This was the case particularly as, otherwise, the Increase Amount would not have been available at all to the Company in the short term.

The initial Option Price in the amount of the minimum issue price of approximately EUR 2.56 was in accordance with the requirements of the 2016 Authorisation and, in addition, was appropriate from the perspective of the Company and its shareholders.

In accordance with the 2016 Authorisation, the Option Price to be determined had to be at least 60% of the average closing price of the Company's shares on the Frankfurt Stock Exchange (Xetra trading) or the depositary interests representing the shares at the London Stock Exchange during the ten trading days prior to the day on which the resolution on issuing the Bonds was passed by the Executive Board. The average closing price of the Company's shares on the Frankfurt Stock Exchange (Xetra trading) on the last ten trading days prior to the date on which the Executive Board passed this resolution (24 September 2020) was below the minimum issue price pursuant to section 9(1) AktG of approximately EUR 2.56.

The Executive Board, after a due review, considered the Option Price in the amount of EUR 2.56 to be appropriate. The determination of the Option Price at the above amount is based on the agreement made with the WSF in the Master Agreement. The WSF was willing to grant a Recapitalisation Measure only at the condition, in particular, that the Warrant Bond would be issued at the minimum option price permitted under stock corporation law. Against the background of the stabilisation measure as an overall package, the Company was not able to agree on a higher Option Price; rather, a higher Option Price would likely have resulted in the failure of negotiations, which in view of the Company's liquidity shortage would have triggered a high risk for the Company's insolvency. It is true that the agreement on an Option Price of approximately EUR 2.56 without granting pre-emption rights to shareholders involved a risk of dilution for existing shareholders. However, this Option Price at the same time granted access to the stabilisation package and thus secured the continued existence of shareholders' investments (which they might otherwise lose in full). In view thereof, in accordance with the Executive Board's business assessment, the Option Price was also appropriate in the shareholders' interests in the Company's current situation. In consideration of the above, issuing the 2020 Warrant Bond at the initial Option Price determined was thus in the interest of the Company and its shareholders to enable the financial recapitalisation and, ultimately, to prevent insolvency.

The Executive Board, in accordance with its business assessment and on the basis of a due review, further considered interest to be paid on the partial bonds at a rate of 9.5% per year to be in line with the risks involved and thus appropriate in the Company's current situation and market environment.

The requirements provided for by law and in the 2016 Authorisation for disapplying shareholders' pre-emption rights have been met in respect of the issue of the 2020 Warrant Bond. After a due review, the Executive Board has concluded that the issue price of the 2020 Warrant Bond of EUR 150,000,000 (and of EUR 100,000 for each partial bond) was in accordance with the requirement in the 2016 Authorisation that the issue price is not materially lower than the theoretical market value of the Bonds, as calculated using generally accepted methods of mathematical finance.

Generally, that means outside of special cases due to specific extraordinary matters, the theoretical market value of the Bonds is determined in consideration of the individual components set out in the specific terms and conditions of issue and their interaction, considering generally accepted methods of mathematical finance. The Executive Board has been, and continues to be, of the opinion that this valuation based on methods of mathematical finance, which is relevant for standard situations, was not appropriate in the then situation of the Company and of the market to determine a relevant theoretical market value for the purposes of the 2016 Authorisation. Therefore, the Executive Board has paid particular regard to the situation the Company would be in without state support. The lack of creditworthiness by itself – that means the non-availability of the same amount of alternative means of funding on the market – is a statutory condition for obtaining a Recapitalisation Measure from the WSF (section 25(1) Stabilisation Fund Act). As alternative options of funding on the market were not available in accordance with this definition, the specific result of negotiations achieved with the WSF on the terms and conditions of recapitalisation reflected, from a normative view, the relevant market conditions for the Company in its current situation. The Executive Board has therefore taken the position that there were convincing reasons to conclude that, even when agreeing on the minimum Option Price, this price would not be significantly below the theoretical market value of the 2020 Warrant Bond to be issued, and that the requirements determined in the 2016 Authorisation are thus fulfilled. In the opinion of the Executive Board, this certainly has held true, and continues to hold true, in the present case, where the agreed interest rate is within a customary risk range. What had to be particularly considered in this context, in the Executive Board's view, was the fact that interest paid under the 2020 Warrant Bond and the Warrants attaching to it, in economic terms, are part of the total remuneration the federation receives for providing additional state aid in the total amount of EUR 1,200,000,000. The model of detachable Warrants with a term of ten years allowed to grant the federation a form of return on equity, as was required by the federal government in view of the special risk situation. At the same time, the fact that the 2020 Warrant Bond is repayable at any time after repayment of the Increase Amount ensures in the Company's interest that the necessary restrictions and requirements applied to the Company due to the utilisation of state aid are restricted to their absolutely necessary minimum duration. The financial terms of the Warrants are the result of the negotiations conducted with the WSF and the federal government and represent the remuneration for the credit risk assumed by the federation by providing the additional stabilisation package.

In view thereof, the Executive Board has been, and continues to be, of the opinion that the issue price was not significantly below the theoretical market value of the 2020 Warrant Bond

and was therefore appropriate within the meaning of the 2016 Authorisation and the statutory requirements (see section 221(4) sentence 2 in conjunction with section 186(3) sentence 4 AktG).

Finally, the issuance of the 2020 Warrant Bond also complied with the Limit for disapplying pre-emption rights as provided for in the 2016 Authorisation. This is because the 2020 Warrant Bond, by means of the attaching 58,674,899 bearer Warrants, grants pre-emption rights to the same number of TUI shares. Given a pro rata amount of the share capital of approximately EUR 2.56 per TUI share, this corresponds to a share of approximately 9.98% of the Company's share capital existing at the time the 2016 Authorisation is granted and utilised, thus not reaching the Limit of 10%. Furthermore, this Limit was not reduced in the present case due to the required consideration of earlier capital measures.

In an overall consideration, the issue of the 2020 Warrant Bond and of the bearer Warrants with shareholders' pre-emption rights disappplied enabled the Company to raise funds by means of a secure transaction that can be realised in the short term and at particularly favourable conditions for the Company. For the reasons stated above, disapplying shareholders' pre-emption rights was in the Company's interest in an overall consideration.

Berlin/Hannover, den 09.12.2020

A handwritten signature in blue ink, appearing to be 'S. Ebel', written above a horizontal line.

Name: Sebastian Ebel

Position: Mitglied des Vorstands

A handwritten signature in blue ink, reading 'Frank Rosenberger', written above a horizontal line.

Name: Frank Rosenberger

Position: Mitglied des Vorstands