13 December 2017

TUI GROUP

Full year results to 30 September 2017

HIGHLIGHTS

- Third consecutive year of strong earnings growth, with 12% increase in underlying EBITA[1] and 34% increase in underlying EPS[1]
- Continuing to transform our business - 56% of our earnings are now delivered from own hotel and cruise brands, with a strong ROIC performance and less seasonal profile
- Post-merger phase is complete - double digit annual earnings growth with strong cash conversion and strong ROIC performance continues, driven increasingly by market demand and digitalisation benefits, as well as disciplined expansion of own hotel and cruise content
- Strong cash conversion plus €2 billion disposal proceeds enable us to finance growth, pay an attractive dividend and strengthen the balance sheet
- Trading for future seasons is progressing well overall - our balanced portfolio of markets and destinations and strong competitive position leave us well placed to deliver further growth
- Expect to deliver at least 10% growth in underlying EBITA in FY18[1] and extend our previous guidance of at least 10% underlying EBITA CAGR to FY20[1]
- Our ambition – strong strategic positioning, strong earnings growth and strong cash generation, with underlying EBITA doubling between FY14 and FY20

KEY FINANCIALS

Year ended 30 September €m	**2017**	2016	**Change**	**Constant currency change[1]**
Turnover	**18,535**	17,154	+8.1%	**+11.7%**
Underlying EBITA[2]	**1,102**	1,001	+10.2%	**+12.0%**
Reported EBITA[3]	**1,027**	898	+14.3%	**+16.2%**
Underlying earnings per share[4]	**1.14**	0.86	+32.6%	**+33.7%**
Earnings before tax[5]	**1,080**	618	+74.6%	**+76.8%**
Leverage ratio[6]	**2.5 times**	3.3 times	-0.8 times	n/a
Return on invested capital (ROIC)[7]	**23.6%**	21.9%	+1.7 ppts	n/a
Dividend per share	**€0.65**	€0.63	12.0%[8]	n/a

[1] Assuming constant foreign exchange rates are applied to the result in the current and prior period
[2] Underlying EBITA has been adjusted for gains/losses on disposal of investments, restructuring costs according to IAS 37, ancillary acquisition costs and conditional purchase price payments under purchase price allocations and other expenses and income from one-off items
[3] Reported EBITA comprises earnings before net interest result, income tax and impairment of goodwill and excluding the result from the measurement of interest hedges
[4] For calculation of underlying earnings per share please refer to page 58 of the Annual Report
[5] For reconciliation of earnings before tax to underlying EBITA, please refer to page 57 of the Annual Report
[6] Leverage ratio is calculated as the ratio of gross debt (including net pension liabilities and discounted value of operating leases) to reported EBITDAR
[7] ROIC (return on invested capital) is calculated as the ratio of underlying EBITA to the average for invested interest bearing capital for the Group or relevant segment
[8] Percentage growth in dividend per share is calculated off the base dividend in respect of FY16 of €0.58 per share (excluding the additional 10% announced at the time of the merger)

Annual Report and Investor & Analyst Presentation and Webcast

A full copy of our Annual Report can be found on our corporate website: http://www.tuigroup.com/en-en/investors. A presentation and webcast for investors and analysts will take place today at 09:30 GMT / 10:30 CET. The presentation will be made available via our website shortly beforehand. Details of the webcast, which will be available for replay, will also be available there.

FY17 RESULTS

- We have delivered a third consecutive year of strong earnings growth, with underlying EBITA increasing to €1,102m or 12% growth at constant currency rates. This was driven by growth across the business, including our own hotel and cruise content, Source Markets and the delivery of the final tranche of merger synergies. Significant growth in underlying EBITA was delivered despite the impact of higher than normal levels of sickness in TUI fly at the start of the financial year (as previously flagged) as well as the impact of the Air Berlin insolvency (see below for further detail).

In €m	
Underlying EBITA FY16	**1,001**
Hotel & cruise content	+131
Source Markets & other segments	+8
Merger synergies	+20
TUI fly sickness (Q1)	-24
Air Berlin insolvency	-15
Underlying EBITA FY17 excluding FX	**1,121**
Foreign exchange translation	-19
Underlying EBITA FY17	**1,102**

- Growth in underlying EBITA was driven across our business segments, demonstrating the strength of our integrated business model and well balanced portfolio of markets and destinations.

Underlying EBITA in €m	FY17 at constant currency	FY16	Variance at constant currency	FY17 at actual rates	Variance at actual rates
Hotels & Resorts	362	304	+58	357	+53
Cruises	263	191	+72	256	+65
Source Markets	532	554	-22*	526	-28*
Northern Region	351	383	-32	346	-37
Central Region	72	85	-13*	71	-14*
Western Region	109	86	+23	109	+23
Other Tourism	18	8	+10	13	+5
Total Tourism	**1,175**	**1,057**	**+118**	**1,152**	**+95**
All Other Segments	-54	-56	+2	-50	+6
Total TUI Group	**1,121**	**1,001**	**+120**	**1,102**	**+101**

* includes the adverse impact of higher than normal levels of sickness in TUI fly at the start of the financial year (€24m) and the impact of the Air Berlin insolvency (€15m); excluding these items, and at constant currency, Source Markets variance was +€17m and Central Region variance was +€26m

- **Hotels & Resorts delivered a strong performance, with segmental ROIC increasing to 13.2% (versus segmental WACC of 8.5%).**
  - We opened ten new hotels this year in our core brands, bringing the total since merger to 28. More than 60% of these are operated with no or low capital intensity.
  - Hotels & Resorts continues to deliver high levels of occupancy, now 79%, thanks to our strong portfolio of brands and destinations, and our integrated model. Average revenue per bed increased by 6%. The earnings result reflects a continued strong performance in the Western Mediterranean and Caribbean, and encouraging improvement in Turkey and North Africa, as well as earnings from new hotel openings.
  - FY17 marks the fourth consecutive year of increasing ROIC for Hotels & Resorts. This demonstrates the attractiveness of our portfolio of hotel and club brands, the strength of our distribution capabilities, and our disciplined approach to investment.
  - For further commentary on Hotels & Resorts, please see page 60 of the Annual Report.

- **Cruise delivered another year of strong earnings growth, with strong segmental ROIC of 19.9% (versus segmental WACC of 5.25%).**
  - Growth in earnings was driven primarily by the launch of new ships in Germany and UK.
  - Average daily rates increased across all three fleets, despite the increase in capacity.
  - Segmental ROIC remains high, reflecting our equity participation in TUI Cruises as well as excellent performances by our UK and Hapag-Lloyd Cruises subsidiaries.
  - For further commentary on Cruise, please see pages 60 to 61 of the Annual Report.

- **Our Sales & Marketing in Source Markets delivered a strong portfolio performance, thanks to their geographic diversity, market leading positions, popular range of holiday products and focus on efficiency.**
    - Customer volumes (excluding joint ventures) grew by 6% to 20.2 million, with growth in all three regions.
    - Source Markets delivered a high net promoter score of 50 overall, with year on year increases in most of our markets.
    - The TUI rebrand was completed successfully in Nordics and Belgium. This has helped to drive a further increase in direct and online distribution, to 73% and 46% respectively. The UK rebrand commenced in October and is progressing very well.
    - Overall, Source Markets delivered a strong portfolio performance this year, with particularly good operational performances in Nordics, Germany and Benelux this Summer. As previously flagged, this has helped to offset the normalisation of UK margins driven by currency cost inflation and a disappointing Q4 in France.
    - As previously communicated the result was impacted by the sickness incident in TUI fly at the start of the financial year, costing €24m.
    - The Central Region result also includes an adverse variance to prior year of c. €15m following the Air Berlin insolvency, relating to receivables for aircraft and crew leased to Air Berlin in FY17 on which the latter defaulted.
    - For further commentary on Source Markets please refer to pages 61 to 63 of the Annual Report.

- The result for Other Tourism and All Other Segments reflects the delivery of the final tranche of merger synergies, as well as a good performance by Destination Services, which delivers a key part of the customer holiday experience.

- Adjustments between underlying and reported EBITA continued to decrease this year, driven by continued disciplined management of separately disclosed items. For further detail on Adjustments, please refer to pages 57 to 58 of the Annual Report.

- Underlying EPS increased to €1.14, or 34% growth at constant currency rates, driven by the strong operational performance outlined above, lower cost of finance driven by our improved rating, and low underlying effective tax rate of 20%. For the calculation of underlying EPS, please refer to page 58 of the Annual Report.

- Earnings before tax therefore also increased significantly, to €1,080m. This included €172m gain on the disposal of our remaining shares in Hapag-Lloyd AG during the financial year.

- We continue to deliver strong cash conversion, driven by our disciplined management of working capital, separately disclosed items and investments, as well our low cost of finance and effective tax rate. In addition, we have generated €2 billion from the disposals of Hotelbeds, Travelopia and Hapag-Lloyd AG since September 2016. Our strong cash flow and disposal proceeds enable us to finance growth, pay an attractive dividend and strengthen the balance sheet, with our leverage ratio reducing further this year.

- We remain committed to delivering attractive returns to our shareholders, with a proposed dividend of €0.65 per share. This is in line with our guidance to increase the base dividend in line with annual underlying EBITA growth at constant currency.

TRADING FOR FUTURE SEASONS IS PROGRESSING WELL OVERALL

- Demand for our holidays, hotels and cruise brands remains strong:
    - Further growth in own hotel brands, with seven openings scheduled so far for FY18, continued strong demand for Western Mediterranean and Caribbean and improving demand for Turkey and North Africa.
    - Strong cruise yields and load factors across all three brands, with ship launches scheduled for 2018 and 2019.
    - Source Market volumes and average selling price both up 3% for Winter 2017/18, with percentage sold slightly ahead of prior year; Summer 2018 performing in line with our expectations, albeit at a very early stage.

CURRENT TRADING

Demand for our holidays, hotels and cruises remains strong. In Hotels & Resorts we have seven openings scheduled to date for our core brands in FY18. These include Robinson clubs in the Maldives and Thailand, Riu hotels in Mexico and Bulgaria, two Blue Diamond properties in Dominican Republic and a Sensatori in Rhodes. We are also continuing to streamline our portfolio, with further repositionings under the TUI Blue brand currently planned for four existing hotels. We continue to see strong demand for the Western Mediterranean and Caribbean, which are already operating at a high level of occupancy and rate, and expect to see some improvement in demand for Turkey and North Africa, including from our own Source Markets.

In May 2018 we will launch two ships – the new Mein Schiff 1 for TUI Cruises in Hamburg, and the Marella Explorer (previously Mein Schiff 1) in Palma de Mallorca. Further launches will follow in Summer 2019 for TUI Cruises and Marella Cruises, as well as two new expedition ships for Hapag-Lloyd Cruises in 2019. Bookings for our new ships and the existing fleet are progressing very well, with a year on year increase in fleet yield for each of the three brands.

Source Markets trading is progressing well, in line with our expectations. Winter volumes are ahead of prior year, with strong growth in bookings for Thailand, Cape Verde, North Africa and Cyprus. Demand is more subdued for the Caribbean following the hurricanes in September, however this is offset by demand for other destinations with overall long haul bookings up 4%. Both Nordics and Germany have continued their strong performances. In Germany, we continue to build market share with a good trading margin performance, with particularly strong demand for Canaries, North Africa and Thailand. In Nordics, strong volume growth continues and reflects the strategy to grow early volumes. The rollout of our yield management system is also helping to drive a strong margin performance. In Benelux, both volumes and average selling price are ahead of prior year.

Despite the Brexit backdrop, the UK continues to deliver a resilient performance in line with our expectations. Year on year bookings and selling price for Winter 2017/18 reflect the very strong start in prior year trading (when bookings were up 19% including Marella Cruises) and impact of currency inflation. Load factor and percentage of the UK programme sold remain in line with prior year. We are also very pleased with the progress of the UK rebrand, with unaided awareness of the TUI brand performing ahead of our original expectations for this stage. As expected, although UK demand for holidays abroad remains strong, margins across the package holiday market are normalising, primarily as a result of the weaker Pound Sterling. Nonetheless, our margins remain healthy and we are well positioned competitively. TUI is the clear market leader in package holidays in the UK, with a strong net promoter score of 55 in FY17, high levels of direct and online distribution, and a highly integrated and efficient business model.

Source Markets - Current Trading[2]		**Winter 2017/18**		
YoY variation%	**Total Revenue**	**Total Customers**	**Total ASP**	**Programme sold (%)**
Northern Region	**+6**	**+0**	**+6**	**63**
UK	+3	-4	+8	57
Memo: UK incl. Cruise	*+7*	*-3*	*+10*	*59*
Nordics	+10	+7	+3	74
Central Region	**+7**	**+8**	**-1**	**64**
Germany	+9	+9	+1	63
Western Region	**+3**	**+0**	**+2**	**65**
Benelux	+4	+2	+2	65
Total Source Markets	**+6**	**+3**	**+3**	**63**
Memo: Total Source Markets incl. UK Cruise	*+7*	*+3*	*+3*	*64*

[2] These statistics are up to 3 December 2017, shown on a constant currency basis and relate to all customers whether risk or non-risk

For Summer 2018, Source Markets trading is performing in line with our expectations, albeit at a very early stage. As usual for this point in the booking cycle, only the UK is more than 20% booked. UK booked revenue (excluding Marella Cruises) is up 2%, with bookings slightly below the strong start to prior year (when bookings were up 9% including Marella Cruises) and average selling price up 4%.

FUEL/FOREIGN EXCHANGE

Our strategy of hedging the majority of our jet 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 for our Source Markets, which account for over 90% of our Group currency and fuel exposure.

	Winter 2017/18	Summer 2018	Winter 2018/19
Euro	95%	71%	36%
US Dollars	93%	86%	50%
Jet Fuel	93%	85%	63%
As at 8 December 2017			

DIVIDEND

The Executive Board and the Supervisory Board are recommending a dividend of 65 cents per share in respect of the financial year 2017. Subject to approval at the Annual General Meeting on 13 February 2018, shareholders who held relevant shares at close of business on 13 February 2018 will receive the dividend on 16 February 2018.

OUTLOOK

Three years after the merger, we are a stronger, more integrated and better strategically positioned business. Having delivered the merger synergies in full and disposed non-core businesses, the post-merger phase is now complete.

Looking ahead we continue to expect to deliver double digit annual earnings growth with less seasonality, strong cash conversion and strong ROIC performance. This will be driven increasingly by market demand and digitalisation benefits, as well as disciplined expansion of own hotel and cruise content.

We have a clear ambition – strong strategic positioning, strong earnings growth and strong cash generation, with underlying EBITA doubling between FY14 and FY20.

With regard to the ongoing Brexit negotiations between the UK and the EU, we expect and strongly encourage those involved in the negotiations to have a workable solution in place for the airlines, including that current arrangements are extended until such a solution is reached. Whilst we are not able to control the outcome of these negotiations, we are putting contingency plans in place in order to manage potential disruption to our operations.

Trading for future seasons is progressing well overall, and our balanced portfolio of markets and destinations and strong competitive position leave us well placed to deliver further growth, despite external factors which sometimes influence certain parts of the business. We therefore expect to deliver at least 10% growth in underlying EBITA in FY18[1] and extend our previous guidance of at least 10% underlying EBITA CAGR to FY20[1].

The following detailed guidance is given in respect of FY18[1]:

- Turnover – around 3% growth (excluding cost inflation relating to currency movements)
- Underlying EBITA – at least 10% growth
- Adjustments – around €80m
- Net interest – around €120m
- Net capex and investments – around €1.2bn, including net pre-delivery payments and assumed acquisition of Mein Schiff 1 for Marella Cruises, and phasing of expenditure from FY17
- Year end net debt – slightly negative, reflecting investment in transformational growth and aircraft order book finance
- Financial targets – leverage ratio 3.0 to 2.25 times, interest coverage 5.75 to 6.75 times.

[1] *Assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current Group structure*

ANNUAL GENERAL MEETING AND Q1 FY18

TUI Group will hold its Annual General Meeting and issue its Q1 FY18 Report on 13 February 2018.

ANALYST & INVESTOR ENQUIRIES

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