



## **Speech**

**Friedrich Jousen**

**CEO TUI AG**

**at the Annual Shareholder Meeting**

**11 February 2020**

– Check against delivery –

## The market in FY 2019



Boeing 737 MAX,  
Brexit, Overcapacity und  
Thomas Cook  
insolvency



Tourism market grows  
above GDP again



TUI well positioned as  
an integrated company

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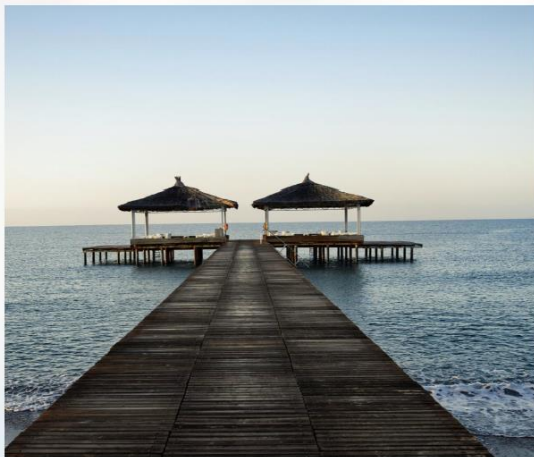
Ladies and Gentlemen, Shareholders,

Welcome to our Annual General Meeting 2020. We are looking back upon an eventful year 2019, characterised by enormous challenges:

Just think of the grounding of the B737 Max, the developments in the framework of Brexit, or the insolvency of Thomas Cook as a result of significant overcapacity in the aviation market. However, overall we can conclude

- that the growth of the tourism sector once again outperformed GDP growth despite the turbulence and challenges, and
- that our Group is very well positioned thanks to our business model as an integrated tourism company.

## TUI in FY19: Operationally strong - strategically well positioned



+2.7%<sup>1</sup> **18.9**  
€bn. revenue

-25.6%<sup>2</sup> **893**  
€bn. underlying EBITA  
(1.186 € mio. excl. MAX)

-24.4%<sup>4</sup> **89<sup>3</sup>**  
cent underlying EPS

-25.0% **54**  
Cent Dividend per share

1- At constant currency and after IFRS 15 adjustments. | 2 Released in December 2018 to €1,187m to take into account €40m impact for revaluation of euro loan balance within Turkish lira entities in financial year 2018 and adjusted further to €1,183m for retrospective application of IFRS 15.13 Pro forma basis, see page 39 of the Annual Report for FY19 for the calculation of adjusted EPS | 3- TUI GROUP | AGM 2020 | Friedrich Jousan | 4- At constant currency



However, let me now present the individual developments one by one.

- In the completed financial year, our turnover rose by 2.7% to 18.9 billion euros. This means that we delivered growth.
- In terms of our operating result, we posted a decline of nearly 26% to 893 million euros, mainly driven by the grounding of the B737 Max, which cost us almost 300 million euros last year. Excluding that effect, our operating result would have matched last year's record level.
- At 89 euro cents, our underlying EPS declined by slightly more than 24% year-on-year. We are therefore proposing payment of a dividend of 54 euro cents.

Let me present an assessment of the situation, in particular in the light of the continued grounding of the B737 Max:

- The grounding causes an enormous economic loss – amounting to around 300 million euros last year and roughly an additional 350 million euros this year. These amounts are very high; however, this year's amounts are in line with our guidance.
- Operationally, we will replace up to 55 aircraft in the current year. We are delivering our flight schedule without cancelling any flights. Here, we differ from airlines operating scheduled services, as they can adjust and reduce their flight schedules. In our Group, flights, hotels and cruises form part of a tourism product. This also means that we have very few short-term alternative courses of action available.

Nevertheless, let me state:

- Today, TUI is financially strong enough to cope with such dramatic effects.
- Of course, the amounts mentioned above are gross rather than net amounts, as we have not yet received any compensation from Boeing this far. Corresponding negotiations are being conducted with great care by the teams, in particular in the light of the very high amounts that have meanwhile arisen.

- Strategically, we are not impeded in any way by the grounding of the B737 Max. We are pressing ahead with the transformation of our Company unrestrictedly. At most, the incident shows how important the transformation process is for our Company.
  
- The operational development and in particular the trading performance we have delivered this year show that our business is booming, as they say, following the insolvency of Thomas Cook. Bookings of our important Summer programme alone are currently growing by 14%. January 2020 was by far the best booking month in the history of our Company. The market shares resulting from the consolidation process are currently being redistributed. We are doing everything in our power to ensure that we do not miss these opportunities. As soon as we will leave the external effect of the B737 Max grounding behind us, this will immediately also be reflected in our set of results.

Special thanks to our employees for their great commitment in a challenging environment



>70.000

Employees

53 +6%

Net Promoter Score



Let me use this opportunity to express a special word of thanks to our more than 70,000 employees. Without their great commitment, our performance in financial year 2019 would certainly have been significantly weaker. In March, it was clear that the B737 Max was going to be unavailable in the short term. At the time, everyone presumed that the problems were going to be solved in the foreseeable future. In the end, the jets were grounded for the remainder of the year, causing an enormous amount of extra work and costs in planning and procuring replacement capacity. At the same time, the markets were characterised by enormously fierce competition.



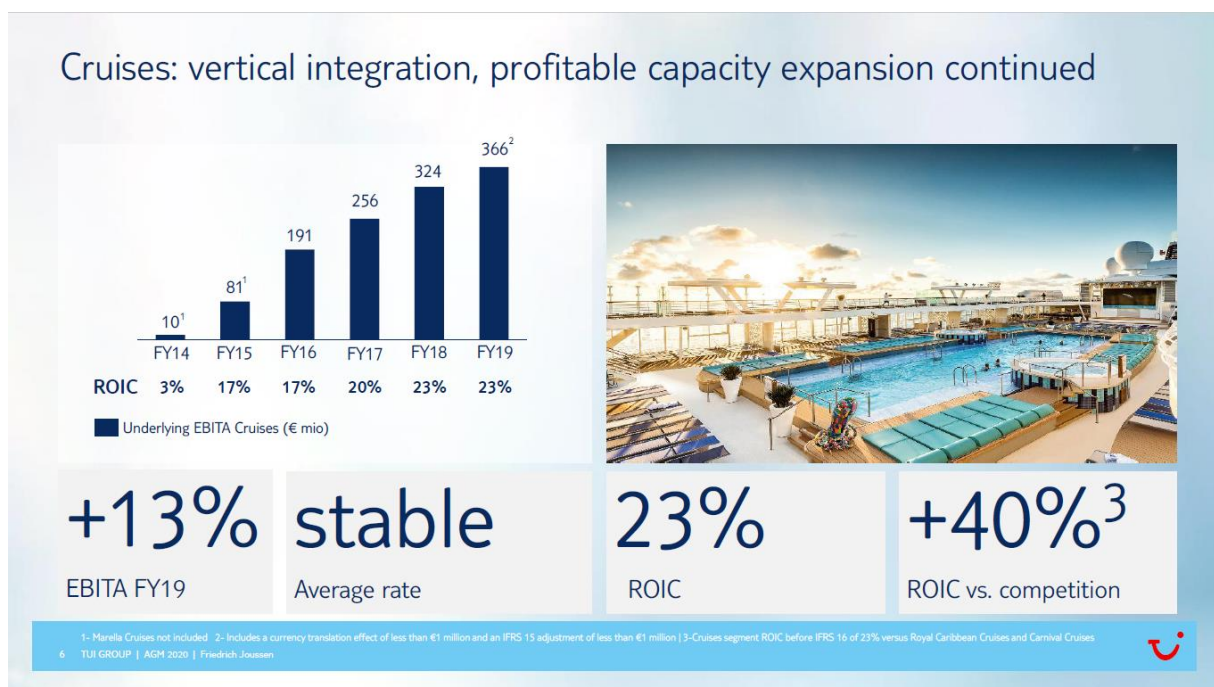
Our team moved closer together and developed solutions in the interest of our customers. Each employee was delivering strong commitment and engagement. This is not to be taken for granted given the strong pressure and adverse circumstances we were facing. I am proud of the fact that we achieved an increase in our NPS, i.e. our net promoter score, of another 6% to more than 52 amid that challenging environment. Our employees are our brand, they are TUI, and last year they did a really great job. Let me thank you very warmly both personally and on behalf of the entire Executive Board as well as – I am certain – on behalf of you all.



Let me now comment on our individual business segments, starting with Hotels & Resorts:

- Here, our earnings grew by 8% to 452 million euros.

- We managed to increase average revenue per bed by 3 euros. In this context, the recovery of demand for travel to Turkey played a key role. The regional diversification of our hotel portfolio was and remains a major benefit in this regard.
- We are particularly proud of our performance in comparison to our peers. In terms of ROIC, we are outperforming our peers by 30%. Vertical integration is functioning.

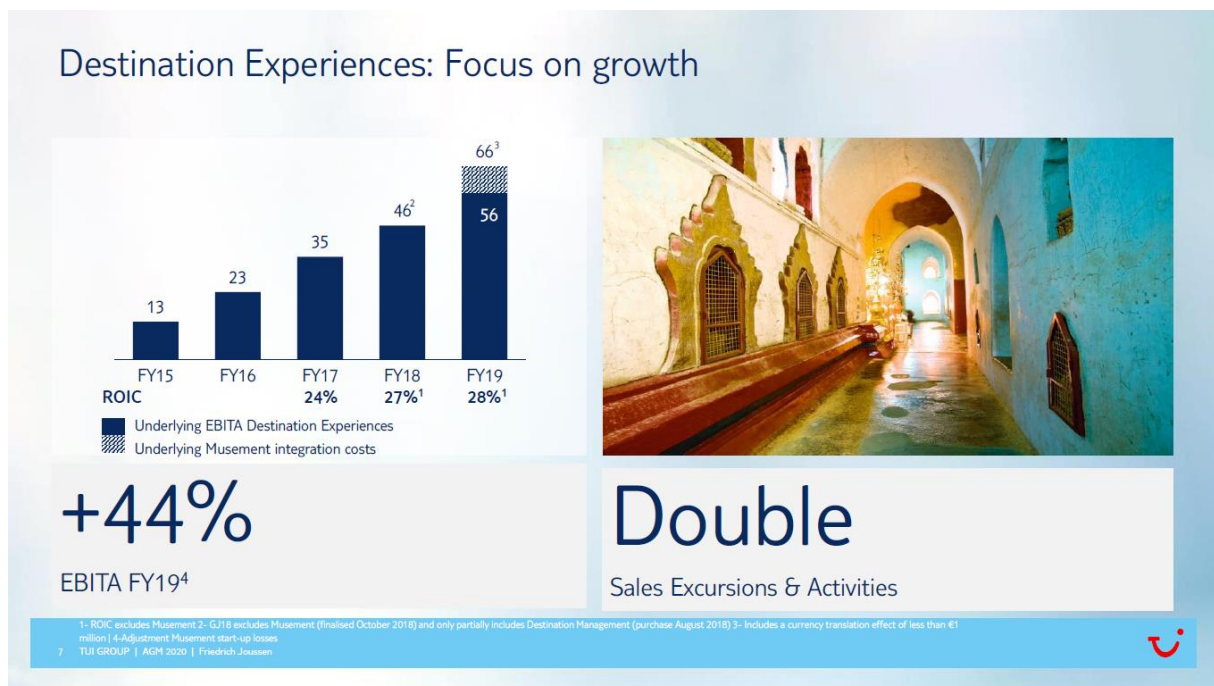


Let me now turn to Cruises:

- EBITA grew by 13% to 366 million euros. This growth was driven by all of our companies in this segment.
- Average rates were stable year-on-year despite a significant expansion of capacity in all companies.



- In this segment, too, we are significantly outperforming our competition, being more than 40 per cent ahead of the industry average. Here, too, vertical integration plays the decisive role.



Let me now turn to Destination Experiences:

- This segment has meanwhile become the gem in our portfolio in terms of growth. We more than doubled the number of excursions and activities sold last year. That growth was achieved through both acquisitions as well as organic growth.

- Operationally, i.e. excluding the ramp-up losses for Musement, we achieved earnings growth of more than 40% in the completed financial year. That is good news, but nevertheless we will invest a significant portion of that profitability into further growth over the next few years.
- We attach importance to maintaining our grow momentum at a high level. I will outline in greater detail why this is important for us and what exactly this means for our results in a moment.



Last but not least, let me comment on Markets & Airlines with our classical tour operators:

- First of all, we delivered a positive performance as we expanded our leading market positions in all key markets.

- Nevertheless, the grounding of the B737 Max and the overcapacity in aviation left their marks. Earnings declined by 365 million euros, including the decline of nearly 300 million euros caused by Boeing, to 132 million euros.
- Last year, Thomas Cook fell victim to the overcapacity in the market. Market consolidation has now started, as I mentioned at the outset of my speech.



Next, I would like to comment on our strategy:

Let me start by presenting the initial situation:

- We currently serve 21 million customers a year with our activities.
- The tourism markets delivering particularly strong growth have been identified as the key markets for the future
- Thanks to our integrated business model
  - we hold leading market positions in all markets
  - we generate turnover of 800 euros per customer
  - we are successfully differentiating ourselves through our own products
  - we generate high profitability through high average occupancies of our hotels and ships

So far, so good! We are acting from a position of strength. Nevertheless, we have identified four strategic areas of action, enabling us to secure our current position or generate additional growth:

## 1 Market & Domain Transformation

### Cost efficiency



### Innovation speed



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Securing and possibly expanding our market shares in the source markets!

This will only be possible if we are competitive in terms of costs and are able to efficiently meet the customers' changing wishes and preferences. We will achieve both aspects through the global harmonisation of our processes and systems. This will be delivered by the Market & Domain Transformation programme headed by my colleagues Rosenberger and Burling, aiming to harmonise the design of all systems and processes across all markets and implement these systems and processes in the global cloud. The project, set to be implemented by mid-2021, is by far the largest transformation project in the history of our Company. Here, we have to ensure, in particular, that our employees support the programme and are enthusiastic about digital change – a big challenge for Elke Eller and her team.

Let me share two examples illustrating the resulting economies of scale:

- We are currently investing 21 million euros per year in WEB front-end software around the world, i.e. across all countries. At 6 million euros, the largest amount is being invested in the UK. Full harmonisation will therefore enable us to save around half our total investments in this area and nevertheless be twice as innovative.
- Each innovation will only be developed once and will immediately be available to our customers anywhere. Let me share an example here, too: In CRM, we are already communicating individually with each customer, i.e. our offerings are tailored to each individual. We will now additionally be able to operate in real time. This will enable us to not only present individual offerings to customers via e-mail, but also, for instance, in the TUI app – in real time. This technological development is very complex and will only be implemented once in the new world. In the old world, featuring different IT systems in six regions, such a project would have been extremely expensive or even impossible to implement because of the high investment amount required.



## 2 Hotels & Cruises: „asset-right“ growth



### Hotels & Cruises: asset-right growth

- We are now operating more than 400 hotels and 18 cruise ships
- As already mentioned, the profitability of our hotels and ships, measured in ROIC, significantly outperforms the industry average.
- We are now consolidating our brands and activities in order to further increase our profitability and accelerate our growth. We will only make direct investments where that is absolutely necessary. This is what we call 'asset-right' growth.

- A particularly good example in this context is the consolidation of Hapag Lloyd Cruises with TUI Cruises. Each company would have been unable to grow on its own – TUI Cruises due to a lack of shipyard capacity, and Hapag Lloyd Cruises as the brand only operates in the German market and could not have been financed through our balance sheet. The two companies are now being integrated, they both deliver growth and major synergies at the same time, and the transaction will additionally create a major inflow of funds for us. We announced our decision to promote international growth for Hapag Lloyd and expand our very successful joint venture with Royal Caribbean Cruise Lines last week.
  
- Regarding our hotels, Sebastian Ebel's team focuses on growth for the RIU brand on the one hand and TUI Blue (including Robinson and Magic Life) on the other. We are now operating 100 TUI Blue hotels. We are planning to significantly expand the number of hotels by opening up our portfolio for third-party hoteliers. For TUI Blue, we are not primarily investing in land and hotels, but we setting the standards regarding the hotels, their location, quality and service levels, with our brand.
  
- Here, our 21 million customers in our traditional source markets and scaling brands have become so attractive, in particular for the hotels, that independent third-party hoteliers are also showing interest. The next step will now be what we have called "Amadeus for hotels", in analogy to the well-known air ticket reservation and booking system.

### 3 „Amadeus for Hotels “: Global Distribution Plattform

<b>GDN</b> Global Distribution Network	<b>PMS</b> Property Management System
<p>1 Mio. customers before 2022</p> 	<p>bed night vs. room category Price differentiation, customer benefit</p> 

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This currently unique global marketing platform for risk hotel capacity for us and for third parties is based on two major modules:

- GDN – our global distribution network: We are focusing on source markets in which we have historically been inactive. Geographically, this includes countries such as China, India, Brazil, Malaysia, but also Spain or Portugal. Functionally, this approach includes, for instance, dynamic sales of committed hotel capacity. Market entry is effected through state-of-the-art AI platforms in the global cloud. Originally, our goal was to generate one million additional customers per year from 2022. We are now seeking to achieve that goal much sooner.

- New Generation PMS: Our offering for hoteliers also comprises a completely new Property Management System, allowing differentiated marketing at the level of one single bed night. All conventional systems are still based on room categories. The yield efficiencies (for example, 100-euro rooms vs. 120-euro rooms) are enormous, as are the benefits that can be communicated to customers (for example the 'Select your room' option, sea view, morning sun, room within range of baby monitor).



Expansion of our global activities platform – one million things to do!

The global market for activities is huge at 150 billion US dollars, delivers fast growth of 7%, is highly fragmented with over 350,000 providers, and is very little digital. We are now in the consolidation phase. We are seeking to achieve a leading role with our platform and will manage to do so. That is why we have decided to give priority to volume growth in the near future, balancing profitability growth and volume growth. We are very well placed to succeed:

- We are not starting from scratch, but have already achieved strong economies of scale with our 21 million customers and 10 million excursions and activities sold.
- We have an enormous advantage as we know 4-6 months ahead when our customers are going to travel where.
- With around 10,000 employees in 50 countries, we benefit from a significant initial advantage in rapidly creating a high-quality, differentiated portfolio of activities going beyond, for instance, a visit to Louvre and also featuring a hot air balloon ride in the Atlas Mountains.





We now have to act fast and consistently seize these initial advantages.

Taken together, we expect our four strategic initiatives to enable us to expand our ECO system from our current 21 million customers to 30 million customers.

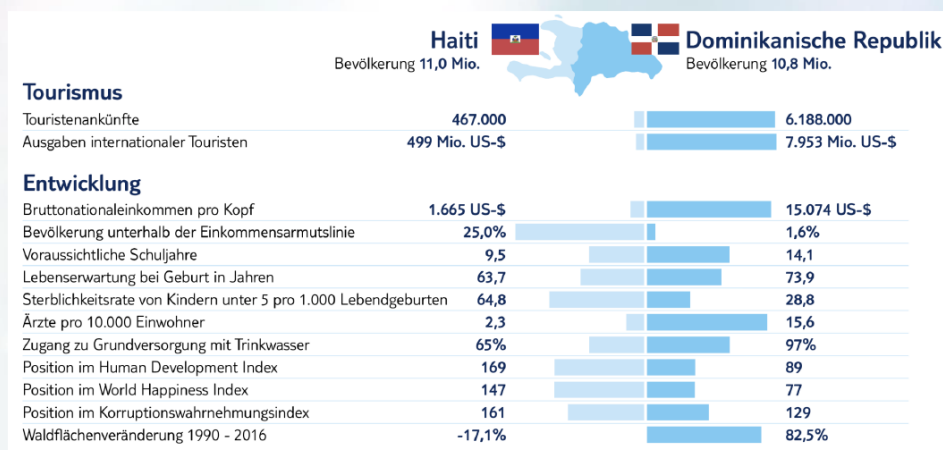
That growth, which will primarily be organic, will require investments. Of course, we will continue our commitment to pursue a conservative balance sheet policy that reduces our debt. After all, we are planning to continue to pay good dividends. This will be possible thanks to our new capital allocation strategy and our new dividend policy. Of course, this topic is very important. That is why my colleague Birgit Conix will present more details in the framework of her financial report.





By way of conclusion, let me comment on sustainability and its importance for our sector and our Company. We are aligning our activities to the UN Sustainable Development Goals. These Goals comprise ecological as well as social and economic sustainability. The UN experts are convinced that these sustainability aspects are interdependent. In the light of this aspiration, the positive impact of tourism is rapidly becoming clear.

### The impact of tourism on Haiti and the Dominican Republic



Source: World Travel & Tourism Council, World Bank, UNDP, UNICEF, UNSDSN, Transparency International; figures from the last available year  
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A comparison between Haiti and the Dominican Republic shows that tourism goes hand in hand with an increase in people's income, a decline in the poverty line, an increase in education and training, higher life expectancy and lower child mortality rates, an improvement in medical care, better access to clean water, enhanced happiness for the general population and even much better development of forested areas. Similar examples are found across the world: in the Cape Verde Islands, Tunisia, Egypt and southern Europe.

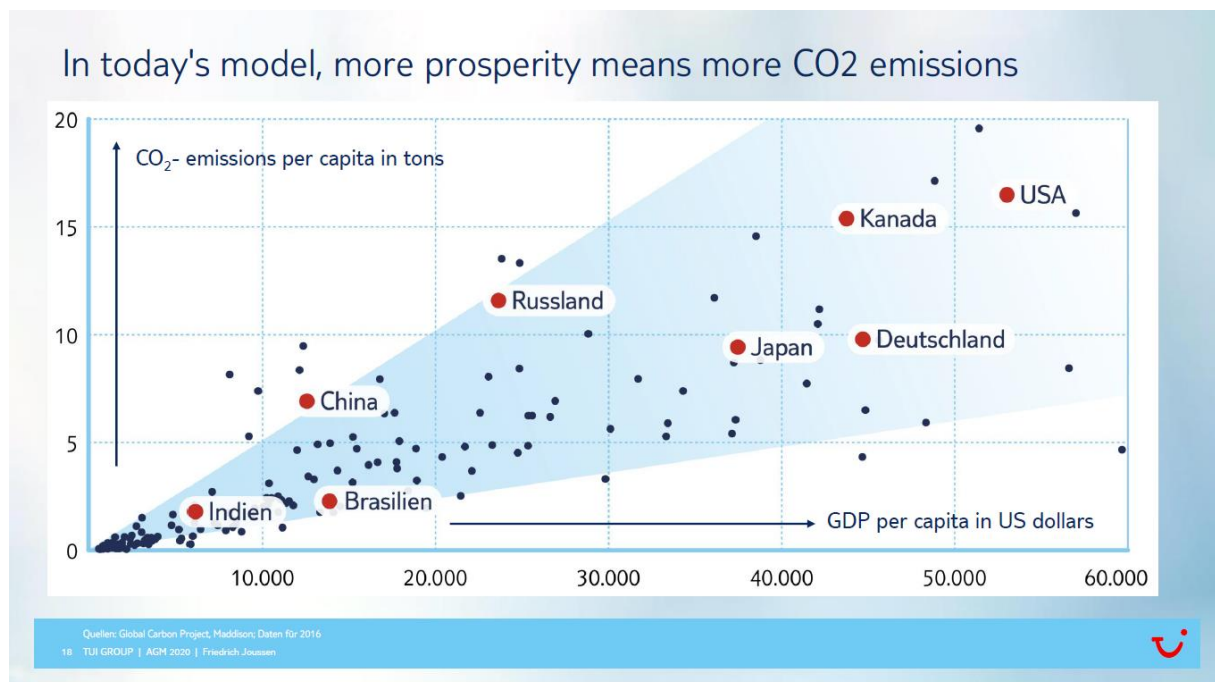
According to the UN definition, this means that tourism is sustainable, it creates ecological as well as social and economic sustainability. It enables many societies to achieve fair participation in economic wealth in the first place. Without tourism, there would be much greater inequality in living conditions and wealth around the world.



Let me now turn to TUI: sustainability has always played a special role for our Company. Our sustainability strategy comprises social and economic sustainability alongside ecological sustainability. Today, we are setting the standards in the tourism sector with our activities. In the area of social sustainability, for instance, we are running 30 projects in 25 countries through the TUI Care Foundation. We are offering training programmes in our TUI Academies and provide support, for instance for start-ups.

In the field of economic sustainability, we typically are the biggest investor in the destinations and thus create a basis for the local economy. For the large majority of countries, we are the partner with the longest common past.

Of course, we are also making particular efforts to promote ecological sustainability. In this respect, for example, we are operating the most efficient aircraft fleets globally, we are generating good progress regarding our cruise ships' CO<sub>2</sub> emissions. At 83%, a significant portion of our hotels have a sustainability certification. I would therefore ask you to regard my brief comments on the general issue of carbon emissions as my contribution to the discussion rather than an excuse for inaction.

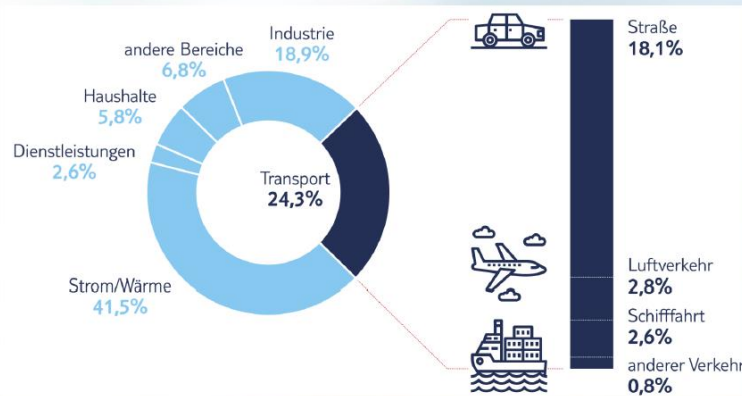


Historically, CO<sub>2</sub> emissions have developed in proportion to wealth.

Per capita carbon emissions are highest in Europe and lowest in China, India and Africa. They are expected to grow most strongly in these regions, in line with an increase in wealth. People want to build homes, live, heat, travel individually, engage in trade, just as we do.

## Global CO2 emissions by polluter

Sector shares in global CO2 emissions from fossil fuels



Quelle: Internationale Energieagentur (IEA), Daten für 2016

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In looking at the CO2 emitters, 80% of the CO2 emitters fall exactly into the area in which the emerging economies are expected to deliver the strongest growth: power and heat, industry and road traffic.

At 2.8%, aviation, by contrast, is a relatively small emitter. Of course, a lot can be done to improve the situation here, too. Unified air space management would cut jet fuel consumption by 10-15% in Europe alone: the so-called Single European Sky. It has been on the political discussion agenda for decades rather than years. Very little has been done. The airlines themselves can render a contribution by investing in their fleets. Every new aircraft generation cuts jet fuel consumption by an additional 10-15%. TUI has been doing so for many years. I told you about the leading positions held by our airlines.

Nevertheless, here, too, we have to say that reducing flight operations in Europe does not seem to be expedient in the light of the over 160 airports planned or under construction in China alone. In aviation, the way forward has to be based on innovation. We urgently need new fuels that are not based on fossil sources of energy. With Power-to-Liquid, hydrogen-based technologies are available, and we all should support their marketability. Incidentally, I believe that the approach required for airlines also applies in general:



- The carbon problem requires a global solution. A really effective solution requires innovation. We have to succeed in decoupling between the development of wealth and CO2 emissions.
- Here, hydrogen can play a crucial role as a long-term substitute for fossil fuels. This will be tantamount to processes in nature. CO2 is recycled.



- The hydrogen required for that purpose has to be produced ecologically and at competitive costs, i.e. at less than 2 euro cents per kilowatt hour. Technically, this should be possible through the production of solar power in the desert. Costs will have to be limited to that order of magnitude for the exploration of fossil fuels to become unattractive. As long as we fail to achieve that, oil production will continue. And although it may be harmful – every litre of oil produced will be burnt somewhere in the world.

This means that we should achieve sensitive reductions and create the necessary framework. We should also rely on new, non-fossil energy sources. I believe in hydrogen. Our sustainability strategy 2030 will reflect both aspects – efficiency and innovation.



Let me conclude my presentation.



- TUI delivered a good performance in a difficult year, based on our first transformation from a pure-play tour operator to an integrated tourism group.
- We are now launching the next transformation as a digital platform company. This transformation will be even more ambitious, but it will be successful. We have a clear strategy and our entire team is absolutely determined to succeed.
- A company will only be only successful in the long term if all stakeholders are equally satisfied – shareholders, employees, customers and society alike. In my comments on sustainability today, I have focused I particular on the latter, society. We have always been sustainability pioneers within the society in which we operate. We are proud of that role and seek to remain forerunners in sustainability. We are working hard towards that goal.
- By way of conclusion, let me once again thank all our employees for their great commitment. They are our brand towards our customers. TUI would be nothing without them.
- However, my special thanks also go out to you, our shareholders. Thank you very much for your loyalty to our Company and for coming here today.